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In The

United States Court of Appeals

FOR THE SECOND CIRCUIT

UNITED STATES OF AMERICA,
Appellee,

against

ALGER HISS,
Appellant.

TRANSCRIPT OF RECORD

Volume IX

Government's State Exhibits 25-55

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

Spec
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224
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1950
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VOLUME IX
GOVERNMENT'S STATE EXHIBITS 25-55

Note: In certain instances additional documents not relating to this case were physically attached to the Government's State Exhibits as introduced in evidence. Also in certain instances photostatic copies of Government's Baltimore Exhibits were attached to the Government's State Exhibits to which they appeared to relate. These documents are omitted here by stipulation.

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31 and 31-A	811	3597
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38 and 38-A	818	3611
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There is no Government's State Exhibit 49

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55 and 55-A	835	3645

GOVERNMENT'S STATE EXHIBITS 25 AND 25-A

Reproduced on following pages.

PREPARING OFFICE
WILL INDICATE WHETHER
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TELEGRAM SENT

Department of State

Washington,

TO BE TRANSMITTED
CONFIDENTIAL CODE
NONCONFIDENTIAL CODE
PARTAIR
PLAIN

1938 FEB 15 PM 3 34

February 15, 1938.

AMLEGATION

VIENNA (AUSTRIA)

Your No. 18, February 14, 9 p.m.

The Department has found your recent telegraphic reports, and in particular your telegram under reference, most enlightening and extremely helpful.

I am somewhat concerned, however, by the statements which you say you made to Schmidt, as reported by you in the sixth paragraph of your telegram. You should very carefully avoid, in the future, making any statements which can possibly be construed as implying that your Government is involving itself, in any sense, in European questions of a purely political character or is taking any part, even indirectly, in the determination of such questions.

762.63/427

FP

762.63/427

U:SW:DLK

Enciphered by .....

Sent by operator ..... *M.*, ... *19*....., ...

EDA TELEGRAM SENT

This telegram must be closely paraphrased before being communicated to anyone (b)

February 15, 1938

4 p.m.

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AMLEGATION

VIENNA (AUSTRIA)

6.

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HULL

SW

U:SW:D

GOVERNMENT'S STATE EXHIBITS 26 AND 26-A

Reproduced on following pages.

CA ✓

This telegram must be closely paraphrased before being communicated to anyone (7)

PARIS

TELEGRAM RECEIVED

Dated Feb. 15, 1938

Recd 5:03 p.m.

1—1336

Secretary of State,

FROM

Washington.

241, February 15, 4 p.m.

Reference my 194, February 4, 6 p.m.

CONFIDENTIAL

The same informant in the Austrian Legation advised us today that for the past few weeks Italy has assured Austria that in the event of German aggression against Austria Italy will mobilize. Italy has, however, at the same time urged Austria to temporize as much as possible with Germany in order to gain time and not put Italy in the position of having to take such action.

Our informant likewise stated that he had talked over the telephone to Vienna this morning and that it was his impression that Chancellor Schuschnigg would probably appoint Seiss-Inquart as Minister of the Interior and head of public security but would have the control of the government police taken away from the latter department and put under the Prefect of Police in Vienna; thus outwardly acceding to Hitler's demands but actually not doing so in that the latter's real desire was to have a Nazi sympathizer control the police.

BULLITT

NPL EHB

FILED

763.63/430

FP

GA.

This telegram must be closely paraphrased before being communicated to anyone (1)

PARIS

Dated Feb. 15, 1938

Recd 5:03 p.m.

Secretary of State,

Washington.

241, February 15, 4 p.m.

Reference my 194, February 4, 6 p.m.

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BULLITT

NPL EMB

GOVERNMENT'S STATE EXHIBITS 27 AND 27-A

Reproduced on following pages.

TELEGRAM RECEIVED

Copy to Navy
2/17/38 RTS-RJ

MBo

GRAY

FROM London

Dated February 16, 1938

Rec'd 3:02 p.m.

Secretary of State,

Washington.

136, February 16, 7 p.m.

Your 57, February 4, 7 p.m., and previous.

92

STRICTLY CONFIDENTIAL.

Admiral Lord Chatfield talked informally but at some length yesterday with Captain Willson concerning escalation under the London Treaty. Based on this conversation it appears probable that the Admiralty will favor for this year's programme raising the battleship limit to about 39,000 tons and making no change in cruiser limits. Captain Willson forwarded a full report by mail to the Navy Department in yesterday's pouch via QUEEN MARY.

JOHNSON

GW:MPD

500.A 15 A 5 CONSTRUCTION/109

CONFIDENTIAL FILE

MBo

GRAY

London

Dated February 16, 1938

Rec'd 3:02 p.m.

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Secretary of State,

Washington.

136, February 16, 7 p.m.

Your 57, February 4, 7 p.m., and previous.

STRICTLY CONFIDENTIAL.

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JOHNSON

GW:WPD

GOVERNMENT'S STATE EXHIBITS 28 AND 28-A

Reproduced on following pages.

REB

TELEGRAM RECEIVED

PA/L

This telegram must be closely paraphrased before being communicated to anyone. (D)

FROM PARIS

Dated February 16, 1938

Rec'd 3:47 p. m.

762.63/437

Secretary of State,

Washington.

249, February 16, 5 p. m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

The Austrian Minister has just read to me a telegram which he received this morning from Schuschnigg. It indicated that Schuschnigg has by no means given up hope of maintaining Austrian independence.

Schushnigg had confidence that Seyss-Inquart, although a pan-German, would not work in an underhand manner for the introduction of Nazis into the regime.

Amnesty would be extended at once not only to Nazis but also to Social Democrats. This amnesty would, however, not include those who had emigrated from Austria thus excluding from the country all those Austrian Nazis who are now in Germany.

FILED FEB 19 1938

The right to conduct political propaganda would be extended not only to the Nazis but also to the Monarchists and Social Democrats. Those Nazis who had been excluded from office and pensions because of their political opinions would have their pensions restored but would not

G-J

Confidential File

REB

2-#249, From Paris, Feb.16,5p.m.

not be given their former offices.

The position of Schuschnigg was, I gathered, the following: that he would continue to struggle for Austrian independence; that he believed this independence could be maintained in the long run only if there should be reconciliation between England, France, and Italy; that he considered recognition of Ethiopia essential for any such reconciliation since the Italians were genuinely convinced that the British at some future date would attempt to drive the Italians out of Ethiopia which would mean the collapse of the Fascist regime in Italy.

(END SECTION ONE)

BULLITT

WWC-NPL

REB **TELEGRAM RECEIVED**

This telegram must be closely paraphrased before being communicated to anyone. (D)

FROM

PARIS

Dated February 16, 1938

Rec'd 4:47 p. m.

Secretary of State,

Washington.

249, February 16, 5 p. m. (SECTION TWO)

Schuschnigg felt that the actions which he was about to take would produce a temporary breathing period but in the end would prove to be just as unsatisfactory to Hitler as his actions which followed the accord of July 1936. He expected therefore that at some future date Germany would attempt again to repeat the Berchtesgaden coup and would mobilize if necessary on the Austrian frontier. He would make no further concessions. He could not attempt to fight Germany alone and if faced by German mobilization would have to resign.

The question of Austrian existence as an independent state therefore depended on the possibility that before Hitler again should become sufficiently irritated to mobilize on the Austrian frontier there might be reconciliation between England, France and Italy and an agreement between those states to support Austrian

FW 762.63/437

G-J Confidential File

REB

Austrian independence.

The Austrian Minister added that he believed the extension of amnesty to the Social Democrats would add greatly to the strength of Schuschnigg's regime as the Social Democrats would be the strongest opponents of a gradual Nazification of Austria.

In contradiction of the opinions expressed above with regard to Seyss-Inquart I was told this morning by a gentleman who says he knows Seyss-Inquart intimately that the latter is a hundred percent Nazi by conviction although a devout Catholic and that he will insert Nazis gradually into all vital posts and strike for a decision in a few months.

END MESSAGE.

BULLITT

NPL
EMB

REB

This telegram must be closely paraphrased before being communicated to anyone. (D)

PARIS

Dated February 16, 1938

Rec'd 3:47 p. m.

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Washington.

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(END SECTION ONE)

BULLITT

TYC-NPL

RED

This telegram must be closely paraphrased before being communicated to anyone. (D)

PARIS

Dated February 16,1938

Rec'd 4:47 p. m.

Secretary of State,

Washington.

[illegible], February 16, 5 p. m. (SECTION TWO)

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Austrian

RED

2-#249, From Paris, Feb.18,5p.m.
(Sec. Two)

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END MESSAGE.

BULLITT

NPL
EMB

GOVERNMENT'S STATE EXHIBITS 29 AND 29-A

Reproduced on following pages.

REB **TELEGRAM RECEIVED**

This telegram must be closely paraphrased before being communicated to anyone. (C)

FROM

PARIS

Dated February 16, 1938

Rec'd 4:34 p. m.

762.63/438

Secretary of State,

Washington.

255, February 16, 9 p. m.

In conversation today the Belgian Ambassador who served in Berlin before coming to Paris said that in his opinion the Austrian situation might easily have found a worse solution than the temporary one actually reached. Every one knew that in the absence of a determined stand by Great Britain and France Hitler could seize Austria whenever he wanted to. As a matter of fact he had not seized Austria but had come to an agreement with Schuschnigg by brutal methods, it is true, under which Austria would be allowed to continue as an independent state for the time being at least. Kerchove attached great importance to the fact that Skubl as Undersecretary of the Department of Security is apparently to continue in control of the Austrian police and felt that this as well as other points which Schuschnigg is reported to have obtained indicate that there has not by any means been complete abdication in the face of Hitler's demands.

FILED FEB 1 3 1938 G-J

BULLITT

NPL-EMB

53-0

REB

This telegram must be closely paraphrased before being communicated to anyone. (C)

PARIS

Dated February 16, 1938

Rec'd 4:34 p. m.

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Secretary of State,

Washington.

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BULLITT

NPL-EMB

GOVERNMENT'S STATE EXHIBITS 30 AND 30-A

Reproduced on following pages.

CA

TELEGRAM RECEIVED

This telegram must be closely paraphrased before being communicated to anyone. (B)

FROM

VIENNA

Dated Feb. 16, 1938

Recd 8:48 p.m.

Secretary of State,

Washington.

RUSH

25, February 16, 10 p.m.

STRICTLY CONFIDENTIAL

My 21, February 15, 5 p.m.

Have just seen Minister for Foreign Affairs Schmidt who seemed on the whole cheerful. He expressed confidence that a period of internal quiet would ensue but felt nevertheless that like the agreement of July 11 only temporary appeasement could be obtained. The task of Seyss-Inquart would be to bring into the fold those elements which have so far been irreconcilable. He did not know how this could be accomplished and foresaw that Seyss-Inquart would have difficulty with Nazi extremists. Probably several new councilors of state would be appointed but this had already been under deliberation with Seyss-Inquart for some time. I asked what further steps the Austrian Government would take in carrying out Berchtesgaden agreement. He replied that pensions would be given to ex-functionaries who were dismissed for Nazi activities. They would, however, not be reinstated. The amnesty did not apply to the Austrian Legionaires in Germany. He

762.63/440

G-J

FILED

FEB 16 1938

He desired that someone be appointed in administrative capacity to look after Austro-German press matters under the two governments. This move he said had not been dictated by Hitler.

Schmidt said that present German maneuvers on the Austrian frontier had been planned for two months. He did not believe that they were a military demonstration against Austria.

Also saw the French Minister who has interviewed Schuschnigg and Hornbostel with both of whom he has unusually close relations. Puaux told me that formation of cabinet was bitterly contested. Papen made a last minute effort to have Glaise Horstenau made Vice Chancellor and an outstanding Nazi appointed Minister of Justice.

(I am reliably informed that Bishop Gfoellner of Linz rushed to Vienna despite illness and urged resistance upon President Miklas. In consequence Catholic Church claims credit for saving these posts from Nazis)

Schuschnigg informed the French Minister that in Berchtesgaden conversation Hitler boasted to him of military prowess of Germany, deprecated French military equipment, alleged that everything he did with respect to Austria and the Sudeten Germans was in entire agreement with Halifax, (British Minister has telegraphed this to the Foreign Office) that in two years time Italy would no longer mean anything to Germany and that it was holy mission to unite

80,000,000 Germans into a nation which would rule Europe.

In contrast with Schmidt the Chancellor frankly resents German maneuvers as military demonstration against Austria. Also article in today's National Zeitung of Essen that reconstruction of Austrian cabinet is first step in Gleichschaltung.

French Minister believes immediate future unpredictable and hopes that there will be at least a temporary period of quiet. He remains, however, most pessimistic regarding the future of Austria and is apprehensive that present German success will encourage Hitler to undertake some new adventure within a few months which may precipitate European war. He stated that today the British Government had made representations at Berlin and that tomorrow the French Government would do likewise. He feared, however, that these representations were of a harmless informative nature not likely to serve as an effective deterrent.

I have also seen the Italian minister who assumes the attitude that nothing unusual is going on and that Austrian independence is not menaced. Mussolini sent message last night approving proposed cabinet reorganization

A prominent Austrian banker who is exceptionally well informed described the situation as most favorable possible outcome for Austria. Austria was threatened with radical

action

action by Germany which could not be resisted. Present compromise would prove far less successful for German aims than Hitler expected. Seyss-Inquart was fundamentally weak and vacillating and would be out-maneuvered by Schuschnigg and Skubl the Secretary of State for Public Security. He was sure that Austria had gained six months during which time international situation might change in some way favorable to Austria.

Indirectly but reliably informed of views of their present Left Wing Leader. He does not expect immediate trouble from Austrian Nazis and believes that Austria will have some months of relative quiet during which Seyss-Inquart will be in constant and ineffective conflict with Skubl. There will be frequent threats of resignation from Seyss-Inquart and in due course another crisis in relations with Germany.

General consensus is that Schuschnigg deserves sympathy and admiration for the manner in which he came out of Berchtesgaden ordeal. It is felt that he yielded minimum and rendered great service to Austria and peace of Europe.

Pending Hitler's speech of February 20 and clarification of attitude of Austrian Nazis it is impossible to make any forecast.

WILEY

NPL:EMB

CA.

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Pending Hitler's speech of February 20 and clarification of attitude of Austrian Nazis it is impossible to make any forecast.

WILEY

NPL:EMB

GOVERNMENT'S STATE EXHIBITS 31 AND 31-A

Reproduced on following pages.

TELEGRAM RECEIVED

MBo
A portion of this telegram must be closely paraphrased before being communicated to anyone.
(B)

FROM Vienna

Dated February 16, 1938

Rec'd 1:10 p.m.

762.62/434

Secretary of State,

Washington.

24, February 16, noon. (GRAY).

My 21, February 15, 5 p.m. paragraph one.

President Miklas last night (END GRAY) (I am informed through official sources that the German Government demanded action by midnight and staged impressive military demonstration along frontier (GRAY) approved Cabinet changes proposed by Chancellor Schuschnigg. Seyss- Inquart appointed Minister of Interior and Security, Schmidt becomes Foreign Minister; Pilz, Justice, and Taucher, Commerce replaced by Adamovich and Raab respectively, Glaise-Horstenau formerly Interior becomes Minister without portfolio as does Zernatto, State Secretary for the patriotic fronts; Hulgerth, Zehner, Skubl (plus command of gendarmerie), Neumayer, Resch and Mandorfer retain previous posts. Watzek becomes State Secretary for Labor in place of Rott who becomes Minister without portfolio. Stepsky-Doliwa appointed State Secretary for Industry.

Two. New Cabinet characterized by the press as "Government

"Government of concentration and peace". Official communique broadcast simultaneously in Austria and Germany at 10 o'clock last night stated that "after the conversation of February 12 both parties had decided on the immediate carrying out of measures which would assure the establishment of a close and friendly relationship between the two countries corresponding to the history and common interest of the German people."

Three. New Cabinet went into session immediately and upon recommendation of Chancellor proposed to President Miklas an amnesty for political delicts committed before February 15th 1938. The official communique states that this action was taken "in a spirit of conciliation with a view to opening the way to cooperation in the building up of the Fatherland for all those citizens who have up to now stood aside and thus to assure internal and external peace."

Four. Speaking before the Austro-German Arbeitsgemeinschaft Ambassador Von Papen stated last night: "An independent Austria can see its task only within the frame of the position of German development and only as collaborator and co-creator in the events of these days in the re-conquest of the position and the spiritual

influence

3- No. 24, February 16, from Vienna.

influence of the Reich in the Occident."

Five. Reporting further tonight. (END GRAY).

Six. I have carefully noted your number 6, February 15, 5 p.m., second paragraph.

WILEY

HPD:

MBo
A portion of this telegram must be closely paraphrased before being communicated to anyone.
(B)

Vienna

Dated February 16, 1938

Rec'd 1:10 p.m.

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Secretary of State,

Washington.

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Two. New Cabinet characterized by the press as

"Government of concentration and peace". Official communique broadcast simultaneously in Austria and Germany at 10 o'clock last night stated that "after the conversation of February 12 both parties had decided on the immediate carrying out of measures which would assure the establishment of a close and friendly relationship between the two countries corresponding to the history and common interest of the German people."

Three. New Cabinet went into session immediately and upon recommendation of Chancellor proposed to President Miklas an amnesty for political delicts committed before February 15th 1930. The official communique states that this action was taken "in a spirit of conciliation with a view to opening the way to cooperation in the building up of the Fatherland for all those citizens who have up to now stood aside and thus to assure internal and external peace."

Four. Speaking before the Austro-German Arbeitsgemeinschaft Ambassador Von Papen stated last night: "An independent Austria can see its task only within the frame of the position of German development and only as collaborateur and co-creator in the events of these days in the re-conquest of the position and the spiritual

influence

influence of the Reich in the Occident."

Five. Reporting further tonight. (END GRAY).

Six. I have carefully noted your number 6, February 15, 5 p.m., second paragraph.

WILEY

HPD:

TELEGRAM RECEIVED

ASSISTANT SECRETARY OF STATE
FEB 16 1938
MR. MESSERSMITH

MG
A portion of this telegram must be carefully paraphrased before being communicated to anyone. B

FROM

Berlin (Part Air)

Dated February 14, 1938

Rec'd 8:30 a.m. 15th

Secretary of State,

Washington.

OFFICE OF THE ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
FEB 17 1938
DEPARTMENT OF STATE

DIVISION OF EUROPEAN AFFAIRS
FEB 15 1938
DEPARTMENT OF STATE

54, February 14, 5 p.m.

(GRAY) Department's 15, February 11, 5 p.m.

811.111 Diplomatic/11441

One. Aschmann: Embassy's despatch No. 3860 of January 29, 1938, with certain details reports statement of a presumably well-informed source that pressure of official duties will prevent Aschmann's complying with Dieckhoff's request that he visit the United States.

Two. Hemmen: formerly counselor of German Embassy at Buenos Aires: More recently accorded the rank of Minister but not assigned to any mission, has been attached to the economic section of the Foreign Office as "delegation Chief for commercial treaty negotiations." He negotiated the German Canadian agreement of 1935 and the Franco-German agreement of 1937. (END GRAY)

The Director of the Economic Section of the Foreign Office tells me that he had said nothing about Hemmen's contemplated visit to the United States and that they were keeping it entirely quiet inasmuch as they did not

wish

611.6231/1010
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A KFC
State
FEB 28 1938
MR. SAYRE

wish any misunderstandings to arise through possible publicity. Hemmen did however at present intend to make such a visit for the purpose of gaining for himself at first hand some knowledge of American economy. He would thus not go upon landing direct to Washington but would visit various points in the United States and go to Washington at the end of that tour.

Wiehl confided to me that Hemmen's visit would be timed in order that he might have the desired information in hand at about the time of the expected signing of the Anglo-American trade agreement which Dieckhoff had informed Berlin he believed would take place in April or May. Wiehl said that it was felt, or at least hoped, in Berlin that an Anglo-American agreement might open the way for something to be done in the way of an agreement between the United States and Germany. In such a case Hemmen might be the negotiator or in any event his trip would prepare him to be the possible negotiator. Wiehl impressed upon me that Hemmen was not visiting the United States at present in any manner as a "negotiator" and he particularly did not wish the aspect to be presented of his being an "observer" of Anglo-American

negotiations

negotiations which would prejudice his entirely reasonable mission to obtain general information and impressions.

GILBERT

WWC

SMS

MO

A portion of this telegram must be carefully paraphrased before being communicated to anyone. B

Berlin (Part Air)

Dated February 14, 1938

Rec'd 8:30 a.m. 15th

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Secretary of State,

Washington.

54, February 14, 5 p.m.

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negotiations which would prejudice his entirely reasonable mission to obtain general information and impressions.

GILBERT

WWC

SMS

TELEGRAM RECEIVED

CA
A portion of this telegram must be closely paraphrased before being communicated to anyone (B)

FROM ROME

Dated Feb. 17, 1938

Recd 6:05 p.m.

Secretary of State,

Washington.

34, February 17, 7 p.m.

(GRAY) An informazione diplomatica communique this afternoon set forth the official views of the Italian Government regarding the meeting between Hitler and Schuschnigg and derides the international press comment with respect to the Italian attitude and considers that the Berchtesgaden meeting and the changes made in the Austrian Cabinet are the natural developments of relations between Germany and Austria on the basis of the agreement of July 11, 1936 which established the essential character of Austro-German relations through the explicit declaration of Austria that it was a German state and which was intended to prepare the way for an understanding between Austria and Germany founded upon realities.

The communique continues that "the Fascist Government has always considered and continues to consider that cordial relations and close collaboration between the two German states not only respond to the unalterable conditions of fact but to the essential interests of peace and tranquillity in Central Europe" (END GRAY)

This

762.63/444

FILED
FEB 19 1938

F

This expression of the official Italian view was confirmed to me by Count Ciano today. While the Minister admitted that the inclusion of Seyss-Inquart a strong pro-Nazi leader in the Austrian Cabinet meant a pronounced increase of German influence in Austria he nevertheless felt that it was far better to have cooperation between the two governments since any increase of Austrian opposition or hostility to Germany might of itself be an invitation to Hitler to take some drastic step. Ciano also told me that there would be very much closer cooperation between the German and Austrian armies and that during the next year there would be an exchange of high ranking officers between the two armies.

The Austrian Minister here Berger-Waldenegg who as the Department will recall was formerly Austrian Minister for Foreign Affairs takes a somewhat optimistic attitude presumably representing the official Austrian interpretation. During a conversation with him today he expressed the view that the Berchtesgaden conversations had been beneficial and represented a fairly satisfactory compromise between the demands of Hitler and the views of Schuschnigg. Berger-Waldenegg regarded Seyss-Inquart as thoroughly loyal to Austria and not an out and out Nazi. He considered Hitler's public reaffirmation of the agreement of July 11, 1936 a most useful accomplishment since Austrian Nazis had in the past refused to regard it seriously because it had been

negotiated

negotiated and signed by Neurath. They had used as their excuse for continuing to make trouble that Hitler had not been in sympathy with the agreement. Berger-Waldenegg added that the meeting had been carefully prepared in advance and that negotiations along this line had been going on for about five weeks during which the Italian Government had been kep t fully informed.

I gain the impression that the Italian Government is not dissatisfied with the present arrangement since it recognizes the importance of the 1936 agreement in the maintenance of Austrian independence and therefore welcomes any development which might tend to strengthen the agreement and prevent the increase of Austrian hostility toward Germany. On the other hand the elements in this country which have beer previously described as either hostile or indifferent to the Rome-Berlin axis are concerned lest recent developments mean such a weakening of Austria as might encouraged Hitler to take further steps.

Repeated to Vienna.

PHILLIPS

NPL

CA

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Dated Feb. 17, 1938

Recd 6:05 p.m.

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Washington.

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Repeated to Vienna.

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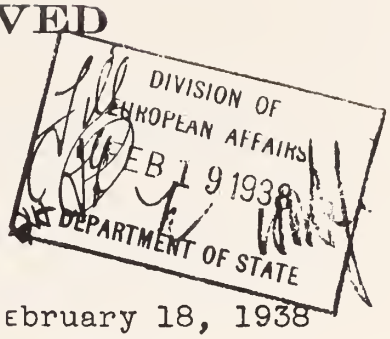
TELEGRAM RECEIVED



REB 1—1336

FROM

This telegram must be closely paraphrased before being communicated to anyone. (B)

BERLIN

Dated February 18, 1938

Rec'd 3:21 p. m.

762.63/453

Secretary of State,

Washington.

62, February 18, 6 p. m.

The Military Attache reports that as a result of numerous conversations and discussions with army sources he is convinced that the agreement reached with Austria as a result of the Hitler-Schuschnigg conversations contains military clauses providing for the gradual "assimilation" of the Austrian army into the German.

Presumably this military agreement covers: (one) unification of tactical doctrine through adoption of similar text books, (two) Austrian adoption of German military organization, (three) gradual introduction of uniform weapons, (four) coordination of war plans.

The Military Attache believes that within the relatively near future there will be evidence of a military alliance through the appointment of standing military missions by each country to the other country.

As

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FEB 24 1938

REB

2-#62, From Berlin,Feb.18,6p.m.

As a corollary of the foregoing it is believed here that further changes in the Austrian Government will be announced shortly which will include the appointment of a "pro-German" Chief of Staff of the Austrian army.

GILBERT

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GILBERT

SMS

GOVERNMENT'S STATE EXHIBITS 32 AND 32-A

Reproduced on following pages.

WAA

TELEGRAM RECEIVED

MJD 1—1336

FROM SPECIAL GRAY

Tientsin via N. R.

Dated February 17, 1938.

Rec'd. 8:30 a. m. MAR 18 1938

COPIES SENT TO O.N.I. A.M.D.

Telegram to Tientsin drafted. WAA

Division of FAR EASTERN AFFAIRS FEB 17 1938 Department of State

Telegram to Tokyo drafted WAA

693.002/513

Secretary of State,

Washington.

1503

39, February 17, 2 p. m.

My No. 29, February 11, noon.

I have been reliably informed that 412,000 gallons of kerosene have been imported duty free at Tientsin under Japanese military auspices during February and that 354,000 gallons of duty free kerosene were forwarded to Peiping by the Japanese Takas Petroleum Company between January 1 and February 12 to be placed on the market there.

CALDWELL

SMS
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FILED SEP 22 1938

ADVISER ON POLITICAL RELATIONS MR. HORNBECK MAR 18 1938 DEPARTMENT OF STATE

MJD

SPECIAL GRAY

Tientsin via N. R.

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SALDWELL

SMS
CSB

GOVERNMENT'S STATE EXHIBITS 33 AND 33-A

Reproduced on following pages.

WAA

TELEGRAM RECEIVED

JR 1—1336

FROM GRAY

Tokyo

file

COPIES SENT TO

Dated February 17, 1938

Rec'd 9:10 a.m.

DT

Secretary of State,

Washington.

111, February 17, 5 p.m.

The British Ambassador today furnished me with the following statement regarding smuggling in North China:

"His Majesty's Charge in China has received reliable confidential information that during the period January 24th to 31st over 17,000 packages were landed near Chinwangtao without payment of duty. The duty on sugar alone thus evaded was almost $50,000 even at the new tariff rates".

Repeated to Shanghai.

GREW

CSB

693.94244/258

A-GB

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SEP 22 1938

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GRAY

Tokyo

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Repeated to Shanghai.

GREW

CSB

GOVERNMENT'S STATE EXHIBITS 34 AND 34-A

Reproduced on following pages.

TELEGRAM RECEIVED

JR 1—1336
This telegram must be closely paraphrased before being communicated to anyone. (A)

FROM Berlin

Dated February 17, 1938

Rec'd 2:25 p.m.

Secretary of State,

Washington.

60, February 17, 6 p.m.

This evening's press announces that the new Austrian Minister of the Interior Seyss-Inquart arrived in Berlin this morning "for a short visit" and was received by Hitler. It is learned that he also saw Ribbentrop and it is reported that the necessity was impressed upon him in both of these conversations of cleaning up in Austria what was described as "Communist elements". It may be further noteworthy that he spent some time at the offices of the secret police.

The circumstance of a newly appointed member of the Austrian cabinet who is known to be pro-German being thus in effect "summoned" to Berlin is construed here as sharply indicative of the nature of the new relationship between Germany and Austria.

GILBERT

CSB

FILED
FEB 1 - 1938

762.63/441

CONFIDENTIAL FILE

GML

JR

This telegram must be closely paraphrased before being communicated to anyone. (A)

Berlin

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Rec'd 2:25 p.m.

Secretary of State,

Washington.

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GILBERT

CSB

GOVERNMENT'S STATE EXHIBITS 35 AND 35-A

Reproduced on following pages.

TELEGRAM RECEIVED

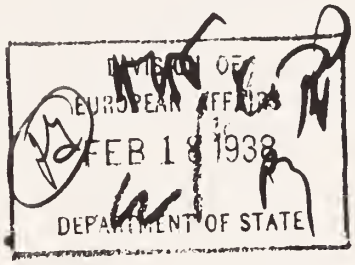
REB

This telegram must be closely paraphrased before being communicated to anyone. (C)

FROM PARIS

Dated February 17, 1938

Rec'd 3:35 p. m.



Secretary of State,

Washington.

261

[redacted], February 17, 8 p. m.

The Foreign Office states that Francois Poncet is seeing Ribbentrop at five o'clock this afternoon. The appointment was asked for the day before yesterday but Ribbentrop was unable to set an hour before this afternoon. Francois will request information concerning the exact significance of the meeting at Berchtesgaden on February 12 and will state that the French Government has a deep interest in whatever takes place in Central Europe.

The British Ambassador in Berlin saw Ribbentrop on the 15th and made a demarche along the lines of the foregoing. He was told that the discussion at Berchtesgaden with Schuschnigg had been concerned only with removing the causes of difficulties which had arisen from the working of the Austro-German agreement of July 1936 and that a communique would be issued shortly giving all pertinent information (this was before the final decision of the Austrian Government had become known).

The

762.63/443

FILED

FEB 19 1938

FP

REB

2-#~~260~~ 261, From Paris, Feb. 17, 8p.m.

The French do not expect to receive any more satisfactory or enlightening response from Ribbentrop than was given to the British. They state however that the fact that this step has been taken in Berlin by both the French and British Governments has some importance as manifesting the interest of both Governments in what transpires in Central Europe.

It seems clear, however, that the French and British action in Berlin has been taken mainly for the sake of the record out of a feeling that they could hardly afford to pass by recent events in complete silence.

Copies to Berlin, Vienna.

BULLITT

CSB

REB

This telegram must be closely paraphrased before being communicated to anyone. (C)

PARIS

Dated February 17, 1938

Rec'd 3:35 p. m.

Secretary of State,

Washington.

261

~~269~~, February 17, 8 p. m.

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The

REB

2-#269, From Paris, Feb.17, 6p.m.

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Copies to Berlin, Vienna.

BULLITT

CSB

GOVERNMENT'S STATE EXHIBIT 36

Reproduced on following pages.

6-1

DEPARTMENT OF STATE

Memorandum of Conversation

DATE:

February 18, 1938.

ECT: German domination of Central Europe and Czechoslovak trade agreement.

TICIPANTS: Mr. Vladimir Hurban, Czechoslovak Minister,
The Secretary,
Mr. Sayre.

ES TO:

DEPARTMENT OF STATE
1938
DIVISION OF
Assistant Secretary of State
MAR 2 - 1938
MR SAYRE
DEPARTMENT OF STATE
TRADE AGREEMENTS
1A
FEB 19 1938
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Mr. Hurban called on the Secretary by appointment in order to deliver to him a message just received from his Government. Mr. Hurban began by saying that the situation in Czechoslovakia is grave, - "very, very difficult". He went on to say that Germany is threatening to dominate Central Europe economically as well as in other ways. He said that his Government believed that the German Government intends the complete domination of Central Europe and that German activities seem to point to a plan of forming extensive clearing agreements with all the European countries of Central Europe except Austria and Czechoslovakia. Within the limits of such an extensive

clearing

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FILED
MAR 24 1938
ADG

clearing agreement would be Hungary, Yugoslavia, Bulgaria, Rumania, Greece, and other countries similarly situated. The economic effect of such a union would be extensive bartering without money passing on the basis presumably of the German mark. In the words of the Czechoslovak Minister, it would be equivalent to a large monetary union. He said that Austria and Czechoslovakia would be left out of this because of German plans to dominate these two countries through political means. From the entire group trade from the other countries would be virtually excluded. In other words, the plan was German domination of Central Europe, with a closed door to the trade of every other country. The Czechoslovak Minister said that his Government had brought this matter to the attention of the British and French Governments within the last day or two and that he was now instructed to bring it to the attention of the United States Government.

In view of this development, the Czechoslovak Minister said that he hoped we would not be rigid in insisting upon the language in our trade agreement covering the Danubian preferences, for he said that some kind of a Danubian alliance seemed to be the only way successfully to prevent the achievement of such a German plan as he outlined.

F. B. S.

A-S FBS:ABN

GOVERNMENT'S STATE EXHIBITS 37 AND 37-A

Reproduced on following pages.

ED

TELEGRAM RECEIVED

REB

This telegram must be closely paraphrased before being communicated to anyone. (C)

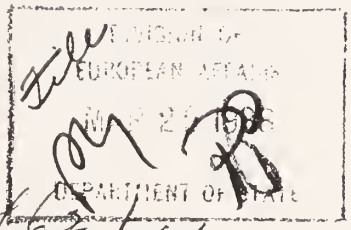
FROM LONDON

Dated March 28, 1938

Rec'd 3:50 p. m.

Secretary of State,

Washington.



257, March 28, 8 p. m.

My 241, March 23, 7 p. m.

STRICTLY CONFIDENTIAL.

I have just finished an hour's talk with Grandi who recently returned from Italy.

First, he is vitally concerned regarding America's opinion of Italy. Second, he informed me that the agreement with England will positively go through within the next few weeks; the Spanish situation will not stop the agreement, settlement of that problem being taken care of. Third, he impressed me with the fact that the Italians will heave a sigh of relief on making this deal with England which will relieve them of being so closely identified with Germany. In answer to Moffat's letter to me of March 14, I would say that in my opinion the successful conclusion of this agreement would definitely weaken Italy's connection with Germany.

Grandi

741.65/521

G-J Confidential File

FILED

MAR 30 1938

REB

2-#257, From London,Mar.28,8p.m.

Grandi was not particularly flattering in his opinion of Goering. Hitler we did not discuss. He is very impressed with Chamberlain and says that he has enjoyed the last month in England more than the previous five and a half years because of the Prime Minister's attitude.

KENNEDY

CSB

RER

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LONDON

Dated March 28, 1938

Rec'd 3:50 p. m.

Secretary of State,

Washington.

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KENNEDY

CSB

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KENNEDY

CSB

GOVERNMENT'S STATE EXHIBITS 38 AND 38-A

Reproduced on following pages.

DIVISION OF
MAR 28 1938
THE AMERICAN REPUBLICS
DEPARTMENT OF STATE

TELEGRAM RECEIVED

JR
This telegram must be closely paraphrased before being communicated to anyone. (A)

Buenos Aires

Dated March 26, 1938

Rec'd 1:14 p.m.

Secretary of State,

Washington.

OFFICE OF THE ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
MAR 29 1938
DEPARTMENT OF STATE

DIVISION OF EUROPEAN AFFAIRS
MAR 29 1938
DEPARTMENT OF STATE

March 26, 1 p.m.

STRICTLY CONFIDENTIAL.

According to the best possible source, Germany is secretly purchasing large stocks of cereals and linseed in Argentina, presumably for ~~military service~~ war purposes. Shipments since January 15, 1938 have been of unusual volume and local shippers are strictly prohibited from divulging any information regarding them. Air mail despatch follows.

RAVNDAL

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662.3511/2

FILED
MAR 30 1938

A KFC

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rection by
nsen, D.C.R.
38

JR

This telegram must be closely paraphrased before being communicated to anyone. (A)

Buenos Aires

Dated March 26, 1938

Rec'd 1:14 p.m.

Secretary of State,

Washington.

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RAVNDAL

CSB

GOVERNMENT'S STATE EXHIBITS 39 AND 39-A

Reproduced on following pages.

EU

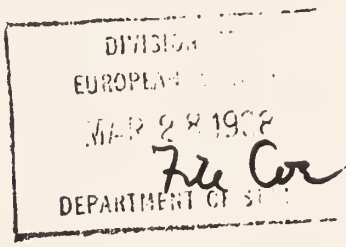
TELEGRAM RECEIVED

MB
This telegram must be closely paraphrased before being communicated to anyone. (B)

FROM Belgrade

Dated March 26, 1938

Rec'd 11:40 a.m.



Secretary of State,

Washington.

47, March 26, 2 p.m.

863.00/1484

My 36, March 15, 9 p.m.

CONFIDENTIAL.

Minister of War restated to me yesterday that construction of Yugoslav fortifications on German frontier which was initiated prior to anschluss is proceeding. Yugoslav Government now evincing active interest in coming to agreement with Standard Vacuum Oil Company respecting duty on crude oil due to military necessity of gasoline reserves. General Maric discounted importance of recent incidents in northern part of the country attributing them to local political rather than to international causes.

Assistant Minister for Foreign Affairs said to me this morning that general European situation appears calmer; that Hitler will not attack Czechoslovakia realizing that such action would lead to general coalition against Germany; and that war will probably be averted for

two

760H.62/66

FILED

FP

two years at least.

Copies to Rome Paris Vienna Berlin and Praha.

LANE

CSB:

MB

This telegram must be closely paraphrased before being communicated to anyone. (3)

Belgrade

Dated March 26, 1938

Rec'd 11:40 a.m.

Secretary of State,

Washington.

47, March 26, 2 p.m.

My 36, March 15, 9 p.m.

CONFIDENTIAL.

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Assistant Minister for Foreign Affairs said to me this morning that general European situation appears calmer; that Hitler will not attack Czechoslovakia realizing that such action would lead to general coalition against Germany; and that war will probably be averted for

two

2- No. 17, March 26, from Belgrade.

two years at least.

Copies to Rome Paris Vienna Berlin and Prague.

LANE

CSB:

GOVERNMENT'S STATE EXHIBITS 40 AND 40-A

Reproduced on following pages.

TELEGRAM RECEIVED

REB

FROM

A portion of this telegram must be closely paraphrased before being communicated to anyone. (B)

ROME

Dated March 28, 1938

Rec'd 3:15 p. m.

741.00/180

FILED

MAR 30 1938

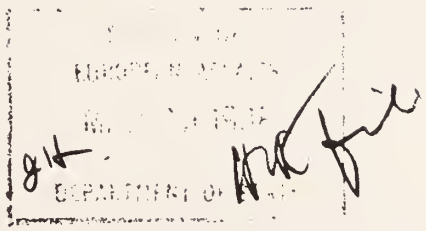
CONFIDENTIAL FILE

EML

Secretary of State,

Washington.

76, March 28, 6 p. m.



(GRAY) Placing the seal of official approval on the extremely favorable reception accorded Chamberlain's speech on March 24 by all sections of the Italian press the following Informazione Diplomatica communique was published here today:

"Before expressing any opinion on Chamberlain's speech the full text thereof has been awaited in Italian official circles. Many points of the British Prime Minister's speech were particularly noted in the above-mentioned circles specifically the criticism of the League of Nations, the rejection of the Russian initiative, the position taken regarding Czechoslovakia.

"As regards Italo-British relations and the negotiations now in progress Italian official circles incline to share the optimism of the British Prime Minister, the form and substance of whose statements regarding Italy are heartily appreciated.

"As

REB

2-#76, From Rome, Mar. 28, 6p.m.

"As regards the Italian Legionary forces in Spain it is known that Italy will keep her pledge to withdraw them when the Franco-Russians are disposed to do likewise and to apply faithfully the British plan in all its parts.

"On the other hand it is known that no further contingents having been sent for many months now the Italian legionary forces in Spain are greatly reduced in number and this is perfectly well known in Paris as well as London.

"While on Italy's part the most explicit and loyal confirmation is given of the commitments undertaken in London official circles are following with the utmost attention the campaign of the French Leftist parties for intervention in Spain, an intervention which would have unpredictable and certainly grave repercussions and might jeopardize the peace of the European continent."

In connection with this warning with regard to Spain the following statement made by the Under Secretary for Air this morning on the anniversary of the founding of the Fascist air force appears to be significant: "Duce, during ~~the first~~ these fifteen years of its new life the Fascist air force in many skies and against many enemies has given magnificent proofs of its power. But it has not

REB

not yet given the supreme one. It is impatiently awaiting your order to do so."

It is announced that Mussolini will address the Senate March 30 on the military budgets. (END GRAY)

There is every evidence that the Italian Government is seriously preoccupied over the possibility that France may intervene actively in behalf of the Spanish Government forces. One such indication is the effort to speed up negotiations with Great Britain, two conversations between Ciano and Perth having taken place over the week-end. I expect to be able to cable a report on these conversations tomorrow morning.

PHILLIPS

CSB

55

REB

A portion of this telegram must be closely paraphrased before being communicated to anyone. (B)

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ROME

Dated March 28, 1939

Rec'd 3:15 p. m.

Secretary of State,

Washington.

76, March 28, 6 p. m.

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PHILLIPS

CSB

GOVERNMENT'S STATE EXHIBITS 41 AND 41-A

Reproduced on following pages.

CA

TELEGRAM RECEIVED

TAMPICO

FROM Dated March 28, 1938

Recd 9:10 p.m.

Secretary of State,

Washington.

March 28, 5 p.m.

Following information given by officials of the oil companies:

Huasteca: Refinery manufacturing nothing at present, wells still open and flowing, refinery tanks practically full, Ebano tanks can receive approximately 200,000 barrels and Cerro Azul approximately 250,000.

Pierce: Refinery topping 5,000 barrels daily last week and 10,000 beginning today, storage facilities will soon be full necessitating shut down.

Sinclair: Wells being shut down or pinched as storage facilities are practically full.

Gulf: Production normal, has storage facilities for 60,000 barrels in the field and 160,000 at Tampico.

Aguila: All storage facilities will soon be full necessitating shut down, wells being shut down or pinched.

All companies payrolls met to date.

Japanese tank steamer previously reported is expected Tuxpam morning of 29th.

Local conditions quiet, Embassy informed.

ARMSTRONG

CA

812.6363/3179

FILED

APR 6 1938

L/JPS

CA

Grey

TAMPICO

Dated March 28, 1938

Recd 9:10 p.m.

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Secretary of State,

Washington.

March 28, 5 p.m.

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All companies payrolls met to date.

Japanese tank steamer previously reported is expected Tuxpam morning of 29th.

Local conditions quiet, Embassy informed.

ARMSTRONG

CA

GOVERNMENT'S STATE EXHIBITS 42 AND 42-A

Reproduced on following pages.

TELEGRAM RECEIVED

JR

This telegram must be closely paraphrased before being communicated to anyone. (A)

FROM Tokyo

Dated March 28, 1938

Rec'd 7 a.m.

Secretary of State,

Washington.

211, March 28, 1 p.m.

CONFIDENTIAL.

OFFICE OF THE ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
MAR 28 1938
DEPARTMENT OF STATE

The Commercial Attache has been informed confidentially by an official of the Bank of Japan of the following gold shipments from: March 27 yen 20,000,000 per SS KINKWA MARU; April 8 yen 20,000,000 per SS KOMAKI MARU· April 9 yen 30,000,000 per SS TITIBU MARU.

The informant understands that advice of these shipments has already been sent by the Department of Finance to the Financial Commissioner at New York who will communicate it to the United States Treasury.

GREW

RR:HPD

894.51/566
FILED
APR 4-1938
F/FG

DIST JR

This telegram must be closely paraphrased before being communicated to anyone. (A)

Tokyo

Dated March 28, 1938

Rec'd 7 a.m.

Secretary of State,

Washington.

211, March 28, 1 p.m.

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GREW

RR:HPD

TELEGRAM RECEIVED

MB
This message was received in navy code and must be closely paraphrased before being communicated to anyone.

FROM

MARDET TIENTSIN

March 28, 1938

Rec'd 10:40 a.m.

TO: NAVY DEPARTMENT
INFO: CINCAF
MARDET PEIPING

.94

0028 During period twenty one to two eight March approximately seven hundred Japanese wounded or sick evacuated via Chinwangtao. No unusual troop movements. Hospital ship unloading supplies, nature undetermined. 0935

SMS:KLP

793/94/12724

FILED

MAR 30 1938

MB
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March 28, 1938

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SMS:KLP

GOVERNMENT'S STATE EXHIBITS 43 AND 43-A

Reproduced on following pages.

DEPARTMENT OF STATE
MAR 31 1938
DIVISION OF
NEAR EASTERN AFFAIRS

TELEGRAM RECEIVED

JR
This telegram must be closely paraphrased before being communicated to anyone. (C)

FROM Rome

Dated March 29, 1938

Rec'd 9 a.m.

Secretary of State,

Washington.

77, March 29, noon.
My 69, March 20, noon.

The Embassy learns that in the course of the conversation between Ciano and the British Ambassador on March 26 the British Ambassador requested assurances that at the end of the war all Italian volunteers should leave Spanish territory and that all Italian war material would be withdrawn. These assurances were given the following day but the Italian Government has reserved the right to sell or to give certain quantities of war materials to the Franco Government when they are no longer needed by the Italian forces in Spain.

The Ambassador also requested that some official Italian recognition be given to these passages in Chamberlain's recent speech which referred to the satisfactory progress of the negotiations with Italy. This was likewise agreed and the Informazione Diplomatica communique quoted in the Embassy's telegram No. 76, March 28, 6 p.m., was issued. The British Ambassador adds,

741.65/522
FILED
APR 1 1938
GDG

adds, however, that he had no prior knowledge of last paragraph containing the warning against French intervention.

Assurances were also given by the Italian Government that it would start almost immediately to withdraw troops from Libya at the rate of a thousand a week until the normal peace strength or about one-half the present garrison has been reached.

Several other minor points to be clarified but it is believed that the only outstanding major question to be resolved relates to the form and publicity of the agreement. It has been agreed that it will take the form of a general protocol with separate instruments covering the various points included in the conversations to enter into force at a date to be set by the two Governments. This would permit the British to determine what progress had been made in Spain and the Italians to await recognition by Great Britain. The Italian Government is, however, anxious to make public the terms before Hitler's visit and is insisting upon some form of public pledge on the part of Great Britain with respect to the recognition of the Empire.

It is not yet known whether the British Government will be willing to make such a public pledge before the

League

League Council meeting.

It has, however, been proposed that there be a public exchange of letters between the British Ambassador and the Italian Foreign Minister setting forth the undertaking on the part of the British Government to go to Geneva with a view to ultimate recognition of the Empire and the reaffirmation of Italian commitments with respect to Spain. The Ambassador is seeking instructions on this point and believes that the negotiations may be speedily concluded if his Government is willing to accept this proposal.

PHILLIPS

KLP:CSB

55 JF

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League

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PHILLIPS

KLP:CSB

GOVERNMENT'S STATE EXHIBITS 44 AND 44-A

Reproduced on following pages.

REB

TELEGRAM RECEIVED

A portion of this telegram must be closely paraphrased before being communicated to anyone. (B)

FROM PRAHA

Dated March 29, 1938

Rec'd 3:39 p. m.

760F.62/184

Secretary of State,

Washington.

DIVISION OF EUROPEAN AFFAIRS
MAR 30 1938
DEPARTMENT OF STATE

50, March 29, 6 p. m.

(GRAY) In a speech transmitted by all local broadcasting stations last night largely for local consumption and promotion of confidence the Prime Minister assured the public that Czechoslovakia is not threatened by a conflict with her neighbors; referred to German assurances of non-hostile intentions; appreciation of Chamberlain's speech as a contribution to peace: emphasized British recognition of Czechoslovak Government's determination to continue to take all practicable steps within the outline of the constitution to meet reasonable demands of German minority and willingness to support those efforts; referred to international differences in regard to minorities policy and declared it must be based on state integrity and the constitution and that neither denationalization nor economic moral or political pressure in any form or under any circumstances would be tolerated; that although existent minority

FILED
MAR 30 1938
CONFIDENTIAL FILE
GML

REB

minority system is excellent the high tide of German nationalism has created a new international political situation and to stop hostile propaganda and dissipate the impression abroad of oppression of German minority here the Government will codify all minorities measures. (END GRAY)

No mention made of new measures [though] they are probable since in addition to Chamberlain's (suggestion?) we know that British and German Ministers think further measures and improved administration essential.

(GRAY) Prime Minister stated that his proclamation of March 4 had been approved by overwhelming majority of Czech people and that Czechoslovakia's position is now stronger than prior to the present Central European crisis. (END GRAY)

CARR

CSB

REB

A portion of this telegram must be closely paraphrased before being communicated to anyone. (3)

PRAHA

Dated March 29, 1938

Rec'd 3:39 p. m.

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Secretary of State,

Washington.

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minority

REB

2-750, From Praha, Mar.29, 6p.m.

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CARR

CSB

GOVERNMENT'S STATE EXHIBITS 45 AND 45-A

Reproduced on following pages.

EG

TELEGRAM RECEIVED

This message must be closely paraphrased before being communicated to anyone. (C)

GPO

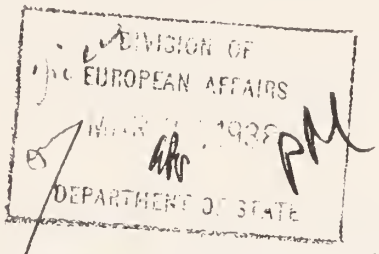
FROM Warsaw

Dated March 29, 1938

Rec'd 3:24 p.m.

Secretary of State,

Washington.



38, March 29, 4 p.m.

STRICTLY CONFIDENTIAL

One. I learn following in strictest confidence from Beck and his associates:

(A) Beck gained distinct impression in conversations with Mussolini and Ciano during Beck's recent Rome visit that they both shared Beck's views in respect to Danubian Valley: whereas Italy focused its attention on the Mediterranean and Poland on the Baltic neither would like to see the hegemony of any country develop further in the Danubian Valley.

FILED
MAR 31 1938

(B) Of pertinent interest moreover during adjournment of Anglo-Italian conversations Mussolini had recently pointed out Italy was fundamentally interested in ascertaining the extent to which Britain would be interested in doing something to bring about economic and other appeasement in that area which had been disturbed by recent events (such as Austria). My informants added that in other words Mussolini's soundings on this score indicated Mussolini's

interest

740.00/338

FJ

interest in embarking on a potential counter policy vis-a-vis Germany's suspected aspirations in Danubian Valley; the counter policy envisaging economic assistance to rescue the Danubian and Balkan States from being swept into the German camp.

Two. My informants added their opinion that Britain would probably be inclined to leave treatment of this problem in abeyance until current obstacles still retarding an Anglo-Italian solution of the problem in Spain will have been eliminated.

BIDDLE

KLP:SMS

EG
This message must be closely paraphrased before being communicated to anyone. (C)

Warsaw

Dated March 29, 1938

Rec'd 3:24 p.m.

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Secretary of State,

Washington.

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BIDDLE

KLP:SMS

GOVERNMENT'S STATE EXHIBITS 46 AND 46-A

Reproduced on following pages.

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Charge to
6.6359

TELEGRAM SENT

TO BE TRANSMITTED
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NONCONFIDENTIAL CODE
PARTAIR
PLAIN

Department of State

Washington,

1938 MAR 30 PM 1 44

March ~~29~~, 1938.

5 P.M.

AMLEGATION

SAN JOSÉ (COSTA RICA)

This cable was sent in confidential Code. It should be carefully paraphrased before being communicated to anyone. B

17

The Department has learned from a presumably reliable source that certain Japanese have approached the E. W. Creevey Trading Company with respect to the possible purchase of a manganese mine said to be owned by that company on Cocos Island.

Please make discreet investigation and report.

Repeated to Panama.

CR

MAR 30 1938.

RA:SC:GEB

Enciphered by .....

Sent by operator ..... *M.*, ..., *19*....., ...

D. C. R.—No. 50 1—1462 U. S. GOVERNMENT PRINTING OFFICE

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This telegram must be closely paraphrased before being communicated to anyone (b)

TELEGRAM SENT

March 30, 1938

5 p.m.

AMLEGATION

SAN JOSE (COSTA RICA)

17.

The Department has learned from a presumably reliable source that certain Japanese have approached the E. W. Creevey Trading Company with respect to the possible purchase of a manganese mine said to be owned by that company on Cocos Island.

Please make discreet investigation and report.

Repeated to Panama.

HULL

SW

RA:SC:GCE

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TELEGRAM SENT

Department of State

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1938 MAR 30 PM 4 44

Washington,

March 30, 1938.

5 pm

AMLEGATION

PANAMA (PANAMA)

This cable was sent in confidential Code. It should be carefully paraphrased before being communicated to anyone. B

The Department has learned from a presumably reliable source that certain Japanese have approached the E. W. Creevey Trading Company with respect to the possible purchase of a manganese mine said to be owned by that company on Cocos Island.

Please make discreet investigation and report. Repeated to San José, Costa Rica.

Hull

CR
MAR 30 1938.

RA:SC:GEB

Enciphered by _____

Sent by operator _____ *M.*, _____, *19*____, _____

D. C. R.—No. 50

1—1462 U. S. GOVERNMENT PRINTING OFFICE

818.0359/194

L/HI

EDA TELEGRAM SENT

This telegram must be closely paraphrased before being communicated to anyone (b)

March 30, 1938

5 p.m.

AMLEGATION

PANAMA (PANAMA)

17.

The Department has learned from a presumably reliable source that certain Japanese have approached the E. W. Creevey Trading Company with respect to the possible purchase of a manganese mine said to be owned by that company on Cocos Island.

Please make discreet investigation and report.

Repeated to San Jose, Costa Rica.

HULL

SW

RA: SC:CEB

DIVISION OF file
APR 1 1938
THE AMERICAN REPUBLICS
DEPARTMENT OF STATE

TELEGRAM RECEIVED

EDA
1—1336
This telegram must be closely paraphrased before being communicated to anyone (a)

FROM PANAMA VIA N.R.

Dated March 31, 1938

Received 9:37 p.m.

Secretary of State

Washington

28, March 31, 7 p.m.

Referring to the Department's No. 17, March 30, 5 p.m.

Neither of the Creeveys has been in Panama since December nor has since shown active interest in Panaman manganese although reported developing Guanacaste, Costa Rica deposits.

No manganese deposit or Creevey interest in Costa Rican Cocos Island heard of in presumably informed sources in Panama but confirmation by the Legation at San Jose is suggested.

Creeveys reputedly capable of such deal or of publicizing fictitious foreign offer for promotion purposes.

EDA:RGC

FLEXER

FILED
APR 2 - 1938

818.6359/20

L/HI

EDA
This telegram must be closely paraphrased before being communicated to anyone (a)

PANAMA VIA U.R.

Dated March 31, 1938

Received 9:37 p.m.

Secretary of State

Washington

28, March 31, 7 p.m.

Referring to the Department's No. 17, March 30, 5 p.m.

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No manganese deposit or Creevey interest in Costa Rican Cocos Island heard of in presumably informed sources in Panama but confirmation by the Legation at San Jose is suggested.

Creeveys reputedly capable of such deal or of publicizing fictitious foreign offer for promotion purposes.

EDA:RGC

FLEXER

TELEGRAM RECEIVED

DIVISION OF
APR 2 1938
DEPARTMENT OF STATE

EG

FROM

A portion of this message must be closely paraphrased before being communicated to anyone. (A)

San Jose

Dated April 1, 1938

Rec'd 7:45 p.m.

Secretary of State,

Washington.

22, April 1, 4 p.m.

(GRAY) Department's telegram No. 17, March 30, 5 p.m.

No manganese mine or other Creevey interests on Cocos Island. The Creeveys control property near Coco Bay on Guanacaste coast and one of the brothers states that they have 4,000 tons of manganese ore ready for shipment at that point. (END GRAY) His conversation, however, does not indicate that he has been approached by the Japanese in regard to purchase.

HORNIBROOK

KLP:SMS

FILED
APR 5 - 1938

811.6363/21

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Secretary of State,

Washington.

22, April 1, 4 p.m.

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HORNIBROOK

KLP:SMS

TELEGRAM RECEIVED

COPIES SENT TO
~~O.N.I.~~ ~~G.N.~~ ~~AND~~ M.I.D.
D

FROM FOURTH MARINES

March 31, 1938

Rec'd 1:10 p.m.

ACTION: CINCAF (FLAG & ADM)
OPNAV

INFO: AMCON SHANGHAI
COMSUBRON FIVE
ASST NAVAL ATTACHE SHANGHAI
AMAMBASSADOR CHINA
USS MARBLEHEAD
ALUSNA PEIPING

Division of
FAR EASTERN AFFAIRS
MAR 31 1938
Department of State

.94/12744

8631. On northern Tsinpu front reinforced Japanese units have recaptured greater part of lost ground. Chinese forced abandon Hanchwang. Heavy fighting north Taierchwang which still in Chinese hands. Reliably informed 280,000 Chinese on lines between Tsinning and Lin. One regular Japanese division recently transferred from Central China to Japan. 1859.

SMS:DDM

793.94/12744

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APR 5 1938

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FOURTH MARINES

March 31, 1938

Rec'd 1:10 p.m.

ACTION: CINCAF (FLAG & ADM)
OPNAV

INFO: AMCON SHANGHAI
COMSUBRON FIVE
ASST NAVAL ATTACHE SHANGHAI
AMAMBASSADOR CHINA
USS MARBLEHEAD
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SMS:DDM

TELEGRAM RECEIVED

MG GRAY

1—1336

FROM Peiping via N.R.

Dated March 31, 1938

Rec'd 9:15 a.m.

Secretary of State,

Washington.

Division of
FAR EASTERN AFFAIRS
MAR 31 1938
Department of State

693.116 MANCHURIA/6

201, March 31, 5 p.m.

Embassy's 182, March 22, 4 p.m.

The Consulate at Dairen reports in despatch dated March 23 that:

"The fact is that although discrimination may and possibly does exist (by virtue of the operation of exchange and trade restrictions" it takes a disguised form and is exceedingly hard to establish. Applications for permits to import goods are seldom definitely refused. The authorities often keep an applicant waiting, without a decision, for so long a time that he is unable to maintain his offer of prices and deliveries, and the matter is apt to end by his cancellation of the application".

The Consul notices one concrete case where an American importer made application last fall for permit to import certain essential motor car parts and received the permit only a short time ago.

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It was noted in conclusion in that despatch that, "There seems to be considerable confusion and inconsistency on the

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on the part of the authorities who administer the control laws. But in view of the obvious purpose of those laws, it would be strange were it not the constant endeavor of the authorities to prevent the importation of foreign goods whenever possible especially when such goods are likely to compete with local or Manchurian products. However, the authorities can truthfully point to the fact that American products are constantly being permitted entry. Only a few days ago a permit wasissued covering an order of one thousand American motor trucks purchased by the authorities in Hsinking."

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SALISBURY

SMS
HPD

GOVERNMENT'S STATE EXHIBITS 47 AND 47-A

Reproduced on following pages.

REB

TELEGRAM RECEIVED

GRAY

March 31 1938

FROM London

Dated March 29, 1938

Rec'd 3:55 p. m.

Secretary of State,

Washington.

260, March 29, 7 p. m.

Your 139 123, March 24, 4 p. m.

One. Johnson and Captain Willson met with British and French representatives at the Foreign Office this afternoon, Sir Alexander Cadogan being present. Drafts of proposed notes were read and agreed upon without comment. The text of the British note is the same as that set forth in numbered section 3 of 139 my 207, March 12, 1 p. m., modified by the changes set forth in numbered paragraph 2 of 139 my 233, March 22, 5 p. m. Two slight changes should be made in the modified text as set forth in my 233. The word "the" should be inserted after the word "upper" and before the word "limits" in the first sentence of paragraph 2 of the British note. In the first sentence of the third and final paragraph of the British note, the word "departures" should be singular.

The French note, which will be delivered in immediate reply to the American and British notes, reads in translation

FILED APR 5 1938

500.A 15 A 5 CONSTRUCTION/141

REB

2-#260, From London,Mar.29,7p.m.

translation as follows: "The Government of the French Republic has examined with the further explanation the communication through which the Government of the United States has been good enough under date of March 31 to notify its intention of departing from the upper limits which the London Naval Treaty 1936 had fixed for capital ships in sub-category (a).

The Government of the Republic has taken due note of the reasons which have led the American Government, as well as the British Government, to this grave decision. Being desirous of limiting as far as possible the extent and eventual consequences of this first departure from the Treaty it desires that an agreement may be reached at an early date among all the powers which have up to the present conformed their construction to the limitations at present in force.

Without awaiting the beginning of the consultations necessary in order to attain this result, the French Government must declare that in spite of the departures to which the American and British Governments have had recourse, it will persist in respecting, in so far as regards naval construction, the qualitative limitations fixed by the Treaty of London so long as no continental

power

power departs from that standard."//

Two. It was proposed and agreed upon, subject to the approval of the Department which it is hoped may be cabled at once, that notes be dated and delivered to their respective destinations on March 31; that the texts be released to the press late on the day of April 1 for publication in the morning papers of April 2; our notes to be delivered in Washington, the British notes to be delivered here, and the French notes to be delivered in Paris.

The British will send similar notes to Germany and Soviet Russia who have been kept informally advised of these discussions. They suggest the advisability of Italy and Japan being informed as a matter of courtesy through our respective embassies in Rome and Tokyo sometime on April 1, prior to delivery of the information to the press and hope we will have no objection to joining in this action.

Three. The British expressed the desire to proceed without delay with discussions under paragraph 3 of Article No. 25. The French can send their technical representatives over at any time. The moment therefore when these discussions commence will depend on when the

REB

4-#260, From London,Mar.29,7p.m.

United States is prepared to begin. Instructions are therefore requested as to whether technical experts will be sent over from the Navy Department or whether it is expected that Captain Willson and Commander Nelson will carry out these informal technical discussions.

Four. Captain Willson in conversation with admiralty officials after the meeting was told that the British are anxious to fix a limit of about 42,000 tons which they believe will give a well balanced ship carrying nine 16-inch guns. They feel that the next higher logical limit would be about 47,000 tons, providing a balanced ship of twelve 16-inch guns.

KENNEDY

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GRAY

London

Dated March 29, 1948

Rec'd 3:55 p. m.

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Secretary of State,

Washington.

230, March 29, 7 p. m.

Your 134, March 24, 4 p. m.

One. Johnson and Captain Willson met with British and French representatives at the Foreign Office this afternoon, Sir Alexander Cadogan being present. Drafts of proposed notes were read and agreed upon without comment. The text of the British note is the same as that set forth in numbered section 3 of my 207, March 12, 1 p. m., modified by the changes set forth in numbered paragraph 2 of my 273, March 22, 5 p. m. Two slight changes should be made in the modified text as set forth in my 237. The word "the" should be inserted after the word "upper" and before the word "limits" in the first sentence of paragraph 2 of the British note. In the first sentence of the third and final paragraph of the British note, the word "departures" should be singular.

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2-4200, From London, Mar.29, 7p.m.

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Without awaiting the beginning of the consultations necessary in order to attain this result, the French Government must declare that in spite of the departures to which the American and British Governments have had recourse, it will persist in respecting, in so far as regards naval construction, the qualitative limitations fixed by the Treaty of London so long as no continental

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Three. The British expressed the desire to proceed without delay with discussions under paragraph 3 of Article No. 25. The French can send their technical representatives over at any time. The moment therefore when these discussions commence will depend on when the

United

REB

4-#230, From London, Mar.29, 7p.m.

United States is prepared to begin. Instructions are therefore requested as to whether technical experts will be sent over from the Navy Department or whether it is expected that Captain Willson and Commander Nelson will carry out these informal technical discussions.

Four. Captain Willson in conversation with admiralty officials after the meeting was told that the British are anxious to fix a limit of about 42,000 tons which they believe will give a well balanced ship carrying nine 16-inch guns. They feel that the next higher logical limit would be about 47,000 tons, providing a balanced ship of twelve 16-inch guns.

KENNEDY

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1938 MAR 30 PM 5 24

March 30, 1938.
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500.A 15 A 5 CONSTRUCTION/141

AMEMBASSY

LONDON (ENGLAND)

RUSH 134 Your 260, March 29, 7 p.m.

One. We will arrange to deliver our note to the diplomatic missions at Washington on March 31 and release the text to the press on the afternoon of April 1 for publication in the morning newspapers of April 2.

Two. We agree that, as a matter of courtesy, the Italian and Japanese Governments should be informed of our intention to escalate.

Three. We agree to proceed at once with discussions under paragraph 3 of Article 25. It is not considered necessary to send over technical experts ~~will not (repeat not) be sent over~~ from the Navy Department at the outset of the discussions. W.A.L.

500.A 15 A 5 Construction/141

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Enciphered by

Sent by operator _____ M., _____, 19__, _____

D. C. R.—No. 50

1—1462 U. S. GOVERNMENT PRINTING OFFICE

EDA TELEGRAM SENT GRAY

March 30, 1938

6 p.m.

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LONDON (ENGLAND)

RUSH.

134.

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Three. We agree to proceed at once with discussions under paragraph 3 of Article 25. It is not considered necessary to send over technical experts from the Navy Department at the outset of the discussions.

HULL

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EU:RTP:RI' PAD FE PAH NAVY CI

LEGATION OF THE
UNITED STATES OF AMERICA
The Hague, Netherlands,
February 26, 1938.

No: 193

SUBJECT: 1938 DEFENSE BUDGET BILL AND BILL TO AMEND THE CONSCRIPTION ACT APPROVED BY FIRST CHAMBER

DIVISION OF EUROPEAN AFFAIRS
MAR 9 1938
DEPARTMENT OF STATE

OFFICE OF THE ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
MAR 14 1938
DEPARTMENT OF STATE

MID
ONI

SPECIAL ASSISTANT TO THE SECRETARY OF STATE
MAR 16 1938
MR. PASVOLSKY

Assistant Secretary of State
MAR 16 1938
MR. SAYRE

ASSISTANT SECRETARY OF STATE
MAR 10 1938

MAR 30 1938

856.51/345

The Honorable

The Secretary of State,

Washington.

Sir:

Adverting to the Legation's despatch No. 175, of February 10, I have the honor to report that the 1938 Defense Budget Bill and the Bill to amend the Conscription Act, which were approved by the Second Chamber on December 9 and 14 last, respectively, were passed by the First Chamber on February 18. The first Bill was approved by 37 to 4 votes, the opposition consisting of three Social Democrats and one Liberal Democrat, and the second Bill by 28 to 13 votes, the oppo-

GE

sition

opposition vote including all the Social Democratic and Liberal Democratic members of the First Chamber who were present. Both Bills, which were passed as received from the Second Chamber - Netherlands parliamentary practice does not permit the First Chamber to amend bills, which must either be passed or rejected in their entirety - now go to the Queen for signature and promulgation.

The First Chamber debates on these Bills, which took place on February 16, 17 and 18, were not of outstanding interest. In general, they brought out little that had not already been said in previous debates in the Second Chamber on the subject. Speeches of Social Democrat members showed marked opposition to the eleven months training period, as proposed by the Government in the Bill to amend the Conscription Act, apparently on the ground that it would cost the country more than the latter could afford. At the same time, general satisfaction was evinced that the army is at present placing the majority of its large orders at home and not abroad, as had frequently happened in the past; and the hope was expressed that the Government would continue to resist temptation to order war material in foreign countries merely because such orders could be filled there more cheaply.

At the close of the debates, and before the final vote was taken, the Minister of Defense, Mr. van Dijk, made a statement answering the various questions asked during the discussion of the two Bills. He assured the First Chamber that war material would be purchased in the Netherlands

whenever possible and, referring to the defense of the Netherlands Indies, said that his Ministry is collaborating with that of the Colonies with a view to the development of the most satisfactory type of an all metal bombing airplane.

Continuing, Mr. van Dijk said that it is possible that new taxes would be necessary in order to facilitate the financing of the proposed defense plans; but that the Government would do nothing in this respect which was not absolutely necessary. He observed that the navy had been kept at a very moderate level and that, while increased sea forces would undoubtedly serve the country's interests, he was of the opinion that the carrying out of the Government's general defense plans, as envisaged by the two Bills under discussion, will make aggression on the part of any foreign Power increasingly unprofitable.

In reply to a question asked by a National Socialist member of the First Chamber (Mr. van Vessem), as to whether a military alliance exists with Great Britain, Mr. van Dijk replied in the negative. (In this connection reference is made to the Legation's strictly confidential despatch No.182, of February 14, wherein it was reported that a secret understanding has existed since 1934 between the Netherlands and British air forces).

Respectfully yours,

For the Minister:

J. Webb Benton.

J. Webb Benton,
First Secretary of Legation.

File No.820
In quintuplicate.

REB

TELEGRAM RECEIVED

This telegram must be closely paraphrased before being communicated to anyone. (C)

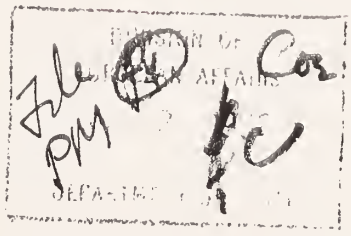
FROM PARIS

Dated March 30, 1938

Rec'd 2:10 p. m.

Secretary of State,

Washington.



497, March 30, 8 p. m.

CONFIDENTIAL.

A German friend formerly in the diplomatic service who maintains relations with Von Neurath has just arrived here from Berlin. He tells me that the leaders of the party are urging Hitler to move quickly against Czechoslovakia in order to take advantage of the favorable situation created by French weakness and British unpreparedness. Their thought is that when the Czechoslovak proposal for dealing with minorities. is known it should be treated as a sort of Berchtesgaden arrangement, denounced as unsatisfactory, disorders to take place in the Sudeten country with an appeal for the assistance of German troops.

My informant said that Von Neurath and others were playing for time and counseling that no aggressive action be taken at least until after Hitler's visit to Rome. Copy to Rome.

WILSON

CSB

760F.62/189

GDG

FILED

MAR 31 1938

REB

This telegram must be closely paraphrased before being communicated to anyone. (C)

PARIS

Dated March 30, 1938

Rec'd 2:10 p. m.

Secretary of State,

Washington.

497, March 30, 8 p. m.

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WILSON

CSF

TELEGRAM RECEIVED

JR
This telegram must be closely paraphrased before being communicated to anyone. (A)

FROM Genoa

Dated April 1, 1938

Rec'd 9:35 a.m.

Secretary of State,

Washington.

April 1, noon.

Have just heard from reliable confidential source that order issued last Tuesday placing fleet from La Spezia to French boundary under six hours sailing orders has now been canceled.

WILSON

RR:SMS

865.37/5

FILED

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Genoa

Dated April 1, 1938

Rec'd 9:35 a.m.

Secretary of State,

Washington.

April 1, noon.

Have just heard from reliable confidential source that order issued last Tuesday placing fleet from La Spezia to French boundary under six hours sailing orders has now been canceled.

WILSON

RR:SMS

GOVERNMENT'S STATE EXHIBIT 48

Reproduced on following pages.

DEPARTMENT OF STATE
DIVISION OF TRADE AGREEMENTS
RECEIVED
DEPARTMENT OF STATE
JAN 11 1938
MR. SAYRE
1938 AM 10 58

January 8, 1938.

A-S
Mr. Sayre:

I am returning the German aide-memoire which you sent me on November 23 together with a memorandum by Mr. Darlington.

The position taken in this memorandum seems to me entirely sound. There is much to be said for the view that a continued unsympathetic attitude on our part would tend to weaken further the position of the more moderate elements in the German bureaucracy. Moreover, when our concessions to be made to the United Kingdom and Canada are withheld from Germany, economic pressure on Germany will be increased and the drive towards autarchy will be given greater impetus, results diametrically opposed to what we are striving to achieve through the trade-agreements program.

It is not the intention of course that any public steps be taken to conclude a trade agreement with Germany prior to the elections in the fall of this year. However the period between now and then might well be utilized in carrying on informal and confidential exploratory discussions with a view to working out answers to the difficult questions involved.

Mr.

611.6231/496½

Mr. Darlington points out that a trade agreement with Germany holds greater possibilities for an expansion of our exports, particularly of agricultural products, than an agreement with any other country, and that such an agreement would probably be an important force making for world peace. These points seem to me to be also well taken.

If a memorandum indicating a readiness to enter into exploratory discussions were given to the German Embassy it would be desirable to inform them that such discussions must be of an informal and confidential character.

Since the subject is of such outstanding importance, I believe it would be desirable for it to be further discussed with the interested Divisions. I believe that you will wish, therefore to send the file next to Eu, since it has not yet been seen by that Division, and then back to EA for consideration of our comment.

Harry C. Hawkins.

TA:HH:JRD

Note: There is no Government's State Exhibit 49.

GOVERNMENT'S STATE EXHIBIT 50

Reproduced on following pages.

DEPARTMENT OF STATE

DIVISION OF TRADE AGREEMENTS

RECEIVED
DEPARTMENT OF STATE
1938 AM 10 58

December 31, 1937

Mr. Hawkins:

I am returning the Aide Memoire which was handed to Mr. Welles by the German Ambassador on October 21, 1937, and sent to you by Mr. Sayre for comment on November 23.

We have come, I feel, to a rather important point in our commercial relations with Germany. Over two years have passed since Germany ceased to enjoy most-favored-nation treatment in this country; a year and nine months ago the Germans made their proposal for the restoration of that treatment; a year and a half ago the imposition of countervailing duties was announced; and a year has elapsed since trade was resumed on the basis outlined in the Treasury Department's release of December 23, 1936. Since German-American commercial relations first reached a stage of advanced deterioration considerable time has slipped away without any constructive step having been taken by this country to place them on a better footing.

During this time, moreover, we have given the German Government no encouragement whatever to take such a step. We did not invite or reply to its earlier proposals; we have expressed ourselves on several occasions in terms critical

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critical of its commercial policy; and in the memorandum handed to the German Ambassador in July to which the present German Aide Memoire is a reply we offered the German Government no incentive to respond even in terms cordial to our commercial policy, much less with a concrete and constructive proposal.

In these circumstances it seems to me that considerable importance is to be attached to the conciliatory language in which the German Aide Memoire is written and to the constructive nature of its general tone. I would like to call your attention particularly to the following passages:

> "The German Government shares the opinion expressed in the Aide Memoire of the Department of State of July 21 of this year that the most favored nation treatment is the best and safest foundation of international trade. The German Government has advocated and adhered to this opinion for decades. The application of the principle of most favored nation treatment, however, finds its limitation in the necessity of self-preservation of the nation. If Germany to-day, in her international trade practice, does not put this principle into effect fully it is not because she desires to replace it by a better, so-called 'bilateral system'; it is because the German Government against its desire, has been compelled to take recourse to emergency measures the drawbacks of which it fully realizes and the detrimental effects of which have repeatedly and clearly been pointed out by Reichsbankpräsident Dr. Schacht, the author of the so-called 'New Plan'...
>
> "...The German Government is entirely willing to adjust its trade policy to the principle of <u>free exchange of goods</u> as soon as the necessary pre-requisites have been established in the other parts of the world, namely, within the

field

field of general currency stabilization, solution of the debt problem, and equal access to raw materials. The pre-requisites cannot be produced by Germany in her present financial and economic situation. They must be brought about by those States that have disturbed the equilibrium within the other spheres.

"...The German Government regrets that the United States up to now has not seen its way to co-operate in finding an interim solution which would have furnished a practical contribution to the realization of its repeatedly-declared intention of increasing international exchange of goods.

"...Germany is ready and willing to accord to the United States the same favorable treatment as it does to any other country...

"The German Government which has expressed far-reaching acknowledgement of the principles of American trade policy, has repeatedly endeavored to place the trade relations between Germany and the United States upon a new foundation guaranteeing the extension of their mutual exchange of goods...

"...The German Government believes to be in accord with the Government of the United States that a just balance of the economic interests of Germany and the United States on the markets of third countries must be counted among those factors which can serve international economic development and the establishment of universal peace, and that this balance will be achieved if the economic competition of the two peoples is guided by fairness and mutual respect."

When the German Ambassador presented this Aide Memoire to the Acting Secretary on October 21, he asked Mr. Welles if he would study it with sympathetic consideration and if he "would likewise please make an effort to read not only the lines but between the lines as well". This desire, that we should read "between the lines", was expressed in these

same

same words on another occasion by the First Secretary of the German Embassy who, I understand, was responsible, with the Ambassador, for drafting the Aide Memoire. The First Secretary in this conversation also stated that Germany is in a position now to go considerably farther in what it can offer to make possible an understanding with the United States than it was in the spring of 1936.

The memorandum of Mr. Welles' conversation with Herr Dieckhoff continues, after the above passage, as follows:

> "....He said this memorandum was the result of his own conversations with his Government in Berlin when he was recently there and was due to his efforts to try to prepare the ground for a more favorable understanding by the German Government of the policy of the United States with regard to a more liberal trade tendency. The Ambassador said that he thought perhaps this memorandum would prepare the way for a further exchange of views between the two Governments, which he hoped would be constructive and lead to a more normal trade relationship between Germany and the rest of the world."

It is true, of course, that the Aide Memoire, as EA points out, contains a certain amount of the old argumentation attempting to justify Germany's present policies and does not offer specifically and in detail any "new constructive basis for rearranging German-American trade relations".

The numerous passages quoted above, however, give it also another aspect and make it capable of another construction. Its whole tone, the references to an interim solution, and the Ambassador's statements surely provide grounds for the belief that the German Government's attitude toward the broad problem of Germany's commercial relations with the United States may

have

have undergone an appreciable change and that that Government may now be ready to make an effort, considerably greater than it made in the spring of 1936, to reach an agreement with us. EA, it appears, recognizes this aspect of the Aide Memoire in suggesting, as one of three possible courses of action now open to us, that we might "put aside all argument and attempt to formulate a proposal stating the terms on which we might restore Germany's most-favored-nation privileges".

Whether or not we go this far, it would certainly seem to be not the best policy for us to devote all our attention to the unfavorable aspect of the Aide Memoire, to ignore its favorable aspect, and to be influenced by so doing into giving an unsympathetic reply which would constitute a rebuff to such overtures as the German Government may be making in it.

The maintenance of an unsympathetic attitude by this Government is not to the disadvantage of Germany alone: it has unfortunate consequences also for us. Three of immediate significance may be mentioned first:

a) Of paramount importance is the reaction that failure on our part to respond to German overtures has upon the position of the moderates in government and business in Germany who are seeking to restrain the Party extremists. The old German civil service is still largely intact and, while in many ministries it has been diluted by the infiltration of Party members, its influence under the surface, especially in the Foreign Office where a minimum

of

of Party men have gained entrance, is considerable. This influence, as is well known, has been exercised to temper the policies of the Party, and has been a constant element making for moderation and restraint. A continued negative attitude on our part towards Germany and German overtures plays directly into the hands of the Party extremists, and correspondingly weakens the position of the men in the various ministries who might like to see Germany's commercial policies shaped more in harmony with ours, and who could advocate our point of view in Berlin, more effectively than we can, if they were provided with some basis upon which to do it. It might be in our interest, on one occasion at least, to give them something to go on; some "ammunition" to use against the Party men; some help in the struggle in which they face such great odds -- and see what they can make of it.

b) The reaction of our continued unsympathetic attitude upon the German Government, and hence upon our remaining trade with Germany, is to be considered. We made no reply to the German proposals of March, 1936, believing none to be necessary. Despite our silence, the German Government has taken advantage of the occasion provided by the exchange of views between the two governments on the limited question of our conversations of last summer with representatives of the Brazilian Government to raise again the question of the general commercial relations between Germany and the United States. This move comes at a time when the Four-Year Plan is entering its second year. If our decision now is to

give

give a reply of negative nature to the German Aide Memoire, we may expect that the German Government will wait a considerable time before it presents us with a similar opportunity of examining what it may have to offer, without ourselves taking the initiative. During this time the Four-Year Plan may be counted upon to develop with a minimum of regard to our formerly very great interest in the German market.

c) The divergence between our present method of carrying on trade with Germany and our proclaimed commercial policy, and the unfortunate reactions of this situation, also bear mention. At present a large part of the trade between the United States and Germany is being carried on on the basis of the four procedures listed in the Treasury Department's press release of December 23, 1936, and in particular upon the basis of procedure number 2. The effect of this procedure has been to create "inland" accounts in German banks analogous in all essential respects to ASKI, and to make possible a substantial volume of trade of a kind which the United States holds to be contrary to the requirements of the most-favored-nation principle and which it has endeavored to persuade Brazil to curtail. In German eyes, and possibly also in other foreign quarters, this situation is damaging to the prestige of American commercial policy, in that it gives that policy a two-faced appearance. Moreover, this

method

method of carrying on trade is so obviously different from what it pretends to be that it cannot but have cast a shadow of discredit upon our commercial policy in the eyes of those familiar with it at home. In the absence of an agreement placing trade between the two countries on a new basis, which will not be achieved so long as we maintain our present attitude, it is difficult to see any remedy to this situation.

Failure to find a satisfactory basis for our trade with Germany will also have unfortunate ultimate consequences for us. Two may be discerned in particular:

a) Increased economic pressure on Germany as our trade-agreements program develops (particularly when the concessions to be granted to Czechoslovakia and the United Kingdom are withheld from Germany) will strengthen Germany's feeling of encirclement and will give this feeling more basis in fact. One of the most important objectives of our program is to relieve such pressures--not, so far as it lies within our power--to increase them.

b) Finally it must be recognized that the continued development of autarchy in Germany will make a return to more liberal commercial policies more and more difficult.

In previous discussions of the question of whether this Government should seek a basis for some form of commercial agreement with Germany, we have been inclined, I feel, to place too much emphasis upon the possible effects of such

an

an agreement upon Germany and the general European situation, and too little upon the actual gains which we might achieve for our trade thereby. The magnitude of the decline which our trade with Germany has suffered is an indication of the prize that is at stake. Not all of the lost trade, of course, could be won back; some part may be permanently gone, either to new domestic industries in Germany or to other foreign sources of supply. But given the reestablishment of a favorable basis for trade between the two countries, much undoubtedly could be recovered. And to the extent that the trade which has supplanted American goods in the German market is a hot-house development, it may be expected in turn to be supplanted by, and to die out before, an expanding volume of healthy trade. The following figures, taken from German statistics, are striking evidence of the magnitude of our loss.

German Imports of All Commodities

	Total	From U.S.	% From U.S.
	(thousands of RM)		
1931-33 Av.	5,199,063	622,004	11.96
1935	4,158,695	240,679	5.78
1936	4,217,948	232,228	5.50
1st 9 mos. 1936	3,138,843	176,029	5.6
1st 9 mos. 1937	3,970,699	200,900	5.1

German Imports of Cotton

German Imports of Cotton

	Total	From U.S.	% From U.S.
	(thousands of RM)		
1931-33 Av.	311,634	226,210	72.58
1935	329,722	71,133	21.57
1936	257,702	72,762	28.23
1st 6 mos. 1936	118,806	41,864	35.2
1st 6 mos. 1937	102,903	22,548	21.9

German Exports of All Commodities

	Total	To U. S.	% To U. S.
	(thousands of RM)		
1931-33 Av.	6,736,393	338,215	5.02
1935	4,269,667	169,522	3.97
1936	4,768,948	172,001	3.60
1st 9 mos. 1936	3,457,654	126,976	3.7
1st 9 mos. 1937	4,281,281	151,100	3.5

In the face of such a stupendous loss of trade, may we not, having the authority conferred by the Trade Agreements Act at our disposal and being entrusted with the responsibility of using that authority, be avoiding our duty and failing in our trust when we not only do not make to Germany proposals of our own, but decline even to investigate and encourage Germany's overtures to us?

These considerations lead me to the view that what is clearly not wanted at the present juncture is a continuance of rhetorical argument between the two governments as to which is the more devoted to the most-favored-nation principle or which discriminates against the other country's trade.

trade. What is needed now is a definite decision on the part of this Government whether it prefers, in view of the many attendant difficulties and uncertainties, to allow trade between the two countries to continue in its present state and probably to decline still further, or whether it is willing to explore, in informal interchanges with the German Government, the possibility of reaching some agreement that would bring improvement.

An agreement with Germany, making possible large increases in exports particularly of a number of staple agricultural products, would not be difficult to formulate and might prove considerably easier to negotiate than we have any idea of.

It is admittedly out of the question that any agreement could be devised that would provide American trade at once with full equality of treatment in the German market. The gap between the treatment American trade now enjoys and the minimum which this Government could consider full equality of treatment is too great to be bridged at one jump. In these circumstances the United States is confronted with the choice of regaining equality of treatment and of restoring its lost trade in two (or three) stages, which implies accepting less than full equality in the first or "interim" stage, or of continuing to maintain the position that it must have "all or nothing" and in fact get nothing.

An interim agreement should of course contain full assurances that the commercial relations between the two countries are to be governed in principle by the rule of equality of treatment applied to all forms of control of trade and of payments therefor, while the treatment of American trade by Germany for which it provides in fact should represent a substantial approach to equal treatment in this unrestricted sense and hence constitute a substantial improvement over present treatment.

In very brief outline such an agreement might be envisaged as follows:

The agreement would be concluded under the authority of the Trade Agreements Act and would comprise two schedules and general provisions according to the usual pattern of this country's trade agreements.

Schedule I would contain a list of duty concessions and a second list, probably longer than the first, of products on which Germany would agree to issue import permits up to a specific amount for each. Schedule II would contain duty concessions granted by the United States to Germany.*

In the general provisions the United States and Germany would guarantee to each other unconditional

most-

*A study made some months ago on the basis of 1934 figures showed Germany to be the first supplier of 709 items, and the first, second and third supplier of 1,536. Of the 709 items, 654 were dutiable, 506 at rates over 25 percent ad valorem.

most-favored-nation treatment in respect of customs duties and related matters. The usual article on monopolies and the recently-adopted provision on exchange control, as well as the minor articles of our standard provisions, would also be included.

As regards quantitative restrictions the United States would obtain full equality of treatment on a vast majority of the products of which it is normally a major supplier to Germany. On a certain limited number of the more important products, however, the quotas allotted to the United States in the "interim" period would fall considerably short of providing full equality of treatment on the basis of the representative period formula but in each case they would represent a large increase over Germany's present imports of the goods in question from the United States.

It is recognized that the first reaction of many will be that any commercial agreement with Germany would be bad domestic politics in that certain groups would oppose it bitterly while the general public would show for it little enthusiasm. Such an agreement might be expected for a period to cause the Administration embarrassment, and to reflect adversely upon the trade-agreements program. This situation might, however, be short-lived. Certainly the

best

best politics of all, at any time, is the politics of prosperity. An agreement with Germany, if at all comprehensive, could hold promise of greater gains for American exports, and particularly American agricultural exports, than an agreement with any other country. If an agreement were concluded following next autumn's elections, a year and a half would still remain before the expiration of the Trade Agreements Act, and two years before the presidential elections, in which its beneficial effects could be influencing and softening public opinion.

In the contribution which it would make towards the cause of peace a commercial agreement with Germany would merit, and might well receive, much approval by the American people. It is true that the argument has sometimes been advanced that such an agreement would tend to increase Germany's aggressiveness, and aid her to carry out her armament program and ultimately to wage war. If this is true, then the basic philosophy of the trade-agreements program is wrong. Would it not be more reasonable to expect that an agreement between Germany and the United States would be a factor making for peace? It would facilitate Germany's acquisition of raw materials; it would assist its export industries; it would be a

proof

proof to the German people that the democratic nations are not opposed to Germany's welfare; and it would rob the Four-Year Plan's drive toward increased autarchy of some of its raison d'être.

Recommendation

It is recommended that we investigate what the German Government may have to offer, and if that Government seems inclined to make a sincere effort to meet our point of view, that we work out the details of an interim agreement (perhaps along the lines suggested above) with the thought in mind of making public announcement of our intention to negotiate after next autumn's elections.

As a first step in this direction I believe that we should make a reply to the German Government's Aide Memoire in friendly terms. We should avoid in it any formal restatement of our commercial policies and principles, which the German Government has already been instructed in ad nauseam. We should also avoid making it a refutation of statements in the Aide Memoire, or a further argumentation of our views and position. If we are ever to mend our commercial relations with Germany, we must adopt a more sympathetic attitude than that. We are playing a part that is unduly severe if we wait for all of the initiative to be supplied by the party which is in the weaker situation and for all constructive suggestions to

come

come from the one least in a position to make them.

Instead, we should refer to the conciliatory passages in the Aide Memoire and particularly to the German Government's reference to the possibility of an "interim solution", and should state simply, that we regret the present state of the commercial relations between the two countries, that we are not unwilling to cooperate with Germany in seeking an interim solution and that, if the German Government should care to renew its suggestions of 1936, with certain modifications, we would give them sympathetic consideration.

A suggested reply to the German Government along these lines is attached hereto.

TA:Darlington:MPD

GOVERNMENT'S STATE EXHIBIT 51

Reproduced on following pages.

Nov. 31, '37

MEMORANDUM

The United States Government has devoted careful study to the Aide Memoire left by the German Ambassador with the Acting Secretary of State on October 21, 1937. While it cannot subscribe to a number of the contentions advanced by the German Government throughout the Aide Memoire, it has noted with satisfaction the German Government's willingness, given certain conditions, "to adjust its trade policy to the principle of the free exchange of goods" and its assurance that "it is ready to accord to the United States the same favorable treatment that it does to any other country".

In particular, the United States Government has noted with deep gratification the German Government's renewed affirmation of its belief in, and adherence to, the unconditional most-favored-nation principle. As the German Government knows, the United States is

convinced that the interests of world trade, and hence of the world's commercial nations, are best served by the application of the principle of equality of opportunity and treatment not only to tariff rates, but also to all other measures that may be adopted to control trade or payments therefor.

The United States Government keenly regrets that, although almost two and a half years have passed since the suspension of the most-favored-nation provisions of the Treaty of Friendship, Commerce and Consular Rights, it has not yet been possible to reestablish commercial relations between the two countries upon this basis. In its Aide Memoire the German Government intimates that an interim solution might be found which might furnish a practical contribution to the realization of the desire of both countries to increase their exchange of goods. The United States notes that the German Government still considers the suggestions made informally by it in March and May, 1936, as a basis for the negotiation of an agreement of this nature.

The United States is not unaware of the economic and financial difficulties with which Germany is confronted. Without commenting upon the German Government's analysis of the origin of these difficulties, it recognizes the limitations which they presently impose upon Germany's possibilities of action. In view of these circumstances the United States Government is ready to cooperate with the German Government in seeking some temporary, or interim, solution to their common problem, which would regularize German-American commercial relations pending their reestablishment upon a full most-favored-nation basis and at the same time facilitate and hasten the attainment of that end. Any plan designed to provide such a solution, in order to be acceptable to this Government, must be based upon an agreement that the commercial relations between Germany and the United States are to be governed in principle by the rule of equality of treatment, applied to all forms of control of commerce and of current commercial payments, and must provide that the treatment to be accorded in fact to American trade by

Germany during the interim period shall represent a substantial approach to equal treatment in this unrestricted sense and hence constitute a substantial improvement over present treatment. The suggestions offered by the German Government in March and May, 1936, while they may be construed as responding in general terms to the first of these conditions, fall short by a considerable margin of satisfying the second.

If the German Government should care to renew its suggestions, modified in the sense outlined above, this Government would be pleased to accord them sympathetic consideration.

Department of State,

Washington,

TA:Darlington:MPD
12-31-37

GOVERNMENT'S STATE EXHIBIT 52

Reproduced on following pages.

A i d e - M é m o i r e .

I.

Die Deutsche Regierung teilt die in dem Aide-Mémoire des Department of State vom 21.Juli d.Js. zum Ausdruck gebrachte Auffassung, daß die Meistbegünstigung die beste und sicherste Grundlage des internationalen Handels ist. Sie hat diese Auffassung jahrzehntelang vertreten und befolgt. Die Anwendung des Grundsatzes der Meistbegünstigung findet aber ihre Grenze an der Notwendigkeit der Selbsterhaltung der Nation. Wenn Deutschland heute in seiner handelspolitischen Praxis diesen Grundsatz nicht in vollem Umfange zur Geltung bringt, so geschieht das nicht, weil es an seine Stelle ein besseres sogenanntes "bilaterales System" setzen möchte. Die Deutsche Regierung hat vielmehr gegen ihren Wunsch zu Notmaßnahmen greifen müssen, deren Schattenseiten ihr wohl bewußt sind und deren nachteilige Wirkungen

611.6231/987

kungen auch der Urheber des sogenannten "Neuen Plans", Reichsbankpräsident Dr. Schacht, wiederholt deutlich gekennzeichnet hat. Ein grundsätzlicher Gegensatz zwischen dem von Deutschland angeblich befolgten "bilateralen System" und dem Meistbegünstigungssystem besteht übrigens nicht. Er kann schon deshalb nicht bestehen, weil Deutschland das auch von den Vereinigten Staaten auf Grund des Ermächtigungsgesetzes vom 12.Juni 1934 angewandte System der Meistbegünstigung mit Tarifabreden gar nicht aufgegeben hat. In Handelsabkommen mit mehr als 50 Ländern ist Deutschland auch heute noch an den Grundsatz der unbedingten Meistbegünstigung gebunden, und zwar auch bei denjenigen Staaten, mit denen Zahlungs- und Verrechnungsabkommen bestehen. Es mag dahingestellt bleiben, ob die Auffassung, wonach die Meistbegünstigung sich auch auf die Devisenzuteilung erstreckt - wenn auch nur in dem Prozentsatz einer so-

genannten

genannten "repräsentativen Periode" - mit dem Begriff der unbedingten Meistbegünstigung, wie er sich nach seiner historischen Entwicklung in Wissenschaft und Praxis heute darstellt, im Einklang steht oder nicht. Tatsächlich haben die Vereinigten Staaten selbst nicht in allen seit Juni 1934 abgeschlossenen Handelsabkommen auf einer uneingeschränkten Anwendung der Meistbegünstigung in dieser Auslegung bestanden. Auch Deutschland könnte in seiner gegenwärtigen wirtschaftlichen Notlage trotz Anerkennung des Grundsatzes einer repräsentativen Periode vertragliche Zusagen über Devisenbescheinigungen ohne Einschränkung dieses Grundsatzes nicht machen.

Die Ursachen der gegenwärtigen Notlage sind der Regierung der Vereinigten Staaten bekannt. Sie liegen vor allem in den unseligen Folgen des Deutschland aufgezwungenen Versailler Vertrages, der Deutschland

wesentliche

wesentliche Grundlagen seiner Rohstoffbeschaffung genommen und zugleich untragbare Zahlungsverpflichtungen auferlegt hat. Zu den politischen Zahlungen kam der Druck derjenigen Regierungen anderer Länder, die ihre Absatzmärkte für deutsche Waren nur unter besonderen Bedingungen zu öffnen bereit waren. Dies war vor allem bei Ländern der Fall, denen gegenüber der deutsche Handel aktiv war und die nun einen Druck ausübten, um sich aus der deutschen Aktivspitze für ihre Kapitalforderungen zu befriedigen. Unter diesem Druck entstanden die Clearing-Verträge, die die Bindung derjenigen Beträge zur Folge hatten, die Deutschland früher dazu verwenden konnte, Käufe in Ländern zu tätigen, mit denen der deutsche Handel passiv war, wie z.B. mit den Vereinigten Staaten. Die heute in der ganzen Welt verbreiteten Systeme der Kontingentierung, des Clearings,

der Kompensation usw. sind nicht von Deutschland erfunden, sondern Deutschland aufgezwungen worden. Die Deutsche Regierung ist durchaus bereit, ihre Handelspolitik mit dem Grundsatz des freien Warenaustausches in Einklang zu bringen, sobald in der übrigen Welt die Voraussetzungen hierfür gegeben sind, und zwar auf dem Gebiet der allgemeinen Währungsstabilisierung, der Lösung des Schuldenproblems und des gleichberechtigten Zugangs zu den Rohstoffen. Diese Voraussetzungen können von Deutschland in seiner gegenwärtigen Finanz- und Wirtschaftslage nicht geschaffen werden. Sie müssen von den Staaten herbeigeführt werden, die das Gleichgewicht auf den anderen Gebieten gestört haben.

II.

Die Deutsche Regierung bedauert, daß die Vereinigten Staaten sich bisher nicht zu einer Zusammenarbeit bereit gefunden haben, um eine Zwischenlösung zu

finden

finden, welche zu der Verwirklichung ihrer wiederholt erklärten Absicht, den internationalen Güteraustausch zu vergrößern, einen praktischen Beitrag geliefert haben würde.

Wenn nach den Worten des Aide-Mémoire dem Handel anderer Länder in den Vereinigten Staaten gleiche Möglichkeiten gewährt werden, sofern diese Länder die Vereinigten Staaten ihrerseits nicht diskriminieren, so stellt die Deutsche Regierung fest, daß die Vereinigten Staaten von Deutschland nicht diskriminiert werden. Deutschland ist bereit, die Vereinigten Staaten so günstig wie irgendein Land zu behandeln. Darüber hinaus behandelt Deutschland die Vereinigten Staaten schon jetzt hinsichtlich der Zuteilung von frei verfügbaren Devisen fast durchweg günstiger als andere Länder.

Umgekehrt fühlt sich Deutschland aber von den Vereinigten Staaten diskriminiert. Die Vereinigten

Staaten gewähren gewissen anderen Ländern, die gleichfalls ihrer Einfuhr und dem Zahlungsverkehr mit dem Auslande Beschränkungen auferlegen, Meistbegünstigung, ohne daß diese Länder sich ihrerseits zu einer uneingeschränkten Anwendung des Grundsatzes der Meistbegünstigung, soweit er sich auf die Zuteilung von Devisen nach dem Prozentsatz einer repräsentativen Periode bezieht, vertraglich haben verpflichten müssen. Die Deutsche Regierung kann den Grund nicht erkennen, warum die Vereinigten Staaten nur im Verhältnis zu Deutschland die Gewährung der Meistbegünstigung davon abhängig machen, daß Deutschland sofort und ohne jede Einschränkung diesen Grundsatz in der Praxis durchführt.

Die Deutsche Regierung hat wiederholt den Versuch gemacht, unter ausdrücklicher weitgehender Anerkennung der Grundsätze der amerikanischen Handelspolitik, die Handelsbeziehungen Deutschlands mit den Vereinigten Staa-

ten auf eine neue, die Ausweitung des gegenseitigen Warenaustausches gewährleistende Grundlage zu stellen. Sie hat im Anschluß an ihre Anregungen vom März 1936 zuletzt am 31.Mai 1936 in ihren Erklärungen zu einem von der Amerikanischen Regierung vorgelegten Fragebogen konstruktive Vorschläge unterbreitet, ohne hierauf bis heute eine Antwort erhalten zu haben. Diese Erklärungen werden deutscherseits auch heute noch als Verhandlungsgrundlage betrachtet.

III.

Wenn in dem Aide-Mémoire ausgeführt wird, daß ein Ausfuhrförderungssystem wie das deutsche den normalen Wettbewerb stört, so sollte nicht vergessen werden, daß der internationale Wettbewerb primär durch die von verschiedenen Regierungen beschlossene Devalvation gestört worden ist. Wenn aber in dem Aide-Mémoire behauptet

wird, daß die Deutsche Regierung es in ihrer Hand habe, durch unterschiedliche direkte Subsidien jede beliebige Ware auf dritten Märkten wettbewerbsfähig zu machen und damit das Geschäft anderer Länder auf diesen Märkten zu stören, so ist nochmals auf folgendes hinzuweisen: Die Mittel, die durch die freiwillige Selbsthilfeaktion der deutschen gewerblichen Wirtschaft aufgebracht werden, dienen zum teilweisen Ausgleich des gerade vom Standpunkt der Gleichheit der Wettbewerbsbedingungen ungerechtfertigten Währungsvorsprungs. Von diesem Gesichtspunkt aus ist die Selbsthilfeaktion entstanden und in diesem Sinne wird sie praktisch angewandt. In einzelnen Fällen mag der Verkäufer einer deutschen Ware diese Selbsthilfeaktion beansprucht und gleichzeitig der Käufer der Ware einen Vorteil ausgenutzt haben, den ihm zum Beispiel die Bezahlung mit Aski-Mark gewährte, auf deren Kursgestaltung die Deutsche Regierung leider keinen Einfluß hat. Durch das

Zusammen-

Zusammenwirken dieser beiden Faktoren mag dann eine Verbilligung der deutschen Ware eingetreten sein, die den Währungsvorsprung des Bezieherlandes oder eines mit der deutschen Ware konkurrierenden dritten Landes überstieg. Die Deutsche Regierung ist aber bemüht gewesen, diesen - im übrigen schwer kontrollierbaren - Fällen nachzugehen und für sofortige Abstellung Sorge zu tragen. In jedem Falle ist die Deutsche Regierung sorgfältig darauf bedacht, daß die Selbsthilfeaktion der deutschen gewerblichen Wirtschaft den Charakter einer Beihilfe zur Überwindung der durch Abwertung hervorgerufenen Währungsvorteile anderer Länder behält und nicht darüber hinausgeht.

IV.

Zu der Statistik über die Ausfuhr der Vereinigten Staaten, Deutschlands und der übrigen Länder nach Brasilien ist folgendes zu bemerken:

Die Ausfuhr der Vereinigten Staaten nach Brasilien hat seit dem Jahre 1934 im ganzen zugenommen, wenn auch der prozentuale Anteil der Vereinigten Staaten an der Gesamteinfuhr Brasiliens etwas geringer geworden ist. Wenn bei einzelnen Waren ein Rückgang der Einfuhr aus den Vereinigten Staaten eingetreten ist, so ist dieser Rückgang nicht durch eine Steigerung der deutschen Einfuhr in Brasilien verursacht worden, sondern vielmehr durch eine vermehrte Einfuhr dieser Waren durch andere Länder, mit denen übrigens die Vereinigten Staaten Meistbegünstigungsabkommen haben. Das ist z.B. der Fall bei Nähmaschinen aus Canada, bei Eisenbahnoberbaumaterial, Lokomotiven und Eisenbahnwagen aus Groß-Britannien und Belgien. Außerdem besteht mehr als die Hälfte der Gesamteinfuhr Brasiliens aus den Vereinigten Staaten in Waren, die Deutschland überhaupt nicht oder wenigstens nur in verhältnismäßig beschränktem Umfang nach Südamerika ausführt. Während die

Vereinigten

Vereinigten Staaten Automobile, Benzin, Petroleum, Mineralöle, Gummimaterial, Rundfunkgeräte, Blech, Tafelobst, Frucht- und Gemüsesäfte, Teer, Weizen usw. nach Brasilien ausführen, umfaßt die deutsche Ausfuhr nach Brasilien ganz andere Waren, wie Steinkohle, pharmazeutische Präparate, Gerste, Hopfen, Felle, Leder, Anilinfarben usw.

Die in dem Aide-Mémoire angeführten Ziffern über die prozentuale Beteiligung des Deutschen Reiches und der Vereinigten Staaten an der brasilianischen Einfuhr allein geben übrigens kein richtiges Bild, da sie nur von der Einfuhr seit 1934 ausgehen. Zur Beurteilung der Frage, ob tatsächlich der deutsche Wettbewerb die amerikanische Einfuhr nach Brasilien zurückgedrängt hat, ist es wesentlich, auch die Einfuhrziffern Brasiliens in der Vorkriegszeit zu berücksichtigen. Hiernach ergibt sich folgendes Bild:

Beteiligung

Beteiligung Deutschlands und der Vereinigten Staaten an der brasilianischen Einfuhr in Prozenten der Gesamteinfuhr.

	Deutschland	U.S.A.
1907	15.3	12.8
1908	14.9	12.1
1909	15.6	12.4
1910	15.9	12.8
1911	16.8	13.3
1912	17.2	15.6
1913	17.5	15.7

In den sieben Jahren vor dem Weltkriege ist also der Anteil Deutschlands an der brasilianischen Einfuhr stets größer gewesen als der Anteil der Vereinigten Staaten. Erst durch den Weltkrieg und die Verhältnisse der Nachkriegszeit ist die deutsche Einfuhr zurückgedrängt worden und hat sich erst allmählich wieder erholen können. Schon die Gegenüberstellung des deutsch-brasilianischen Warenaustausches vom Jahre 1913 in Höhe von rund 447 Millionen Mark mit dem des Jahres 1936 in Höhe von rund 265 Millionen Reichsmark ergibt, daß von einer unangemessenen Steigerung des deutschen Außenhandels mit Bra-

silien nicht die Rede sein kann.

V.

Die Deutsche Regierung hat zu ihrem Bedauern feststellen müssen, daß die deutsche wirtschaftliche Betätigung in latein-amerikanischen Ländern in der amerikanischen Presse und durch private Organisationen der Wirtschaft ständig Angriffen und Verdächtigungen ausgesetzt ist, die eine Stütze in den Tatsachen nicht finden. Die Deutsche Regierung glaubt sich mit der Regierung der Vereinigten Staaten darin einig, daß auch ein gerechter Ausgleich der wirtschaftlichen Interessen Deutschlands und der Vereinigten Staaten auf den Märkten dritter Länder zu denjenigen Faktoren gehört, die der wirtschaftlichen Entwicklung und der allgemeinen Befriedung der Welt dienen können, und daß dieser Ausgleich eintreten wird, wenn der wirtschaftliche Wettstreit der beiden Völker von Fairness und gegenseitiger Achtung geleitet ist.

GOVERNMENT'S STATE EXHIBIT 52-A

Reproduced on following pages.

OFFICE OF THE ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
AUG 4 - 1938
DEPARTMENT OF STATE

Translation.

Aide Mémoire.

ASSISTANT SECRETARY OF STATE
NOV 23 1937
MR. WELLES

I. The German Government shares the opinion expressed in the Aide Mémoire of the Department of State of July 21 of this year that the most favored nation treatment is the best and safest foundation of international trade. The German Government has advocated and adhered to this opinion for decades. The application of the principle of most favored nation treatment, however, finds its limitation in the necessity of self-preservation of the nation. If Germany to-day, in her international trade practice, does not put this principle into effect fully it is not because she desires to replace it by a better, so-called "bilateral system"; it is because the German Government against its desire, has been compelled to take recourse to emergency measures the

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A-3

the drawbacks of which it fully realizes and the detrimental effects of which have repeatedly and clearly been pointed out by Reichsbankpräsident Dr. Schacht, the author of the so-called "New Plan". Moreover, a fundamental conflict between the "bilateral system" supposedly pursued by Germany and the system of most favored nation treatment does not exist. There can be no such conflict if for no other reason than that Germany has not abandoned the system of most favored nation treatment with tariff stipulations applied also by the United States by virtue of the Act of June 12, 1934. In trade agreements with more than fifty countries Germany, even to-day, is still bound to the principle of unconditional most favored nation treatment, and this is true also in the case of

those

those States with which Germany has concluded clearing- and compensation agreements. It need not be discussed whether the opinion according to which the most favored nation treatment extends also to the allotment of foreign exchange - if only within a percentage of a so-called "representative period" - is or is not in conformity with the concept of unconditional most favored nation treatment as it presents itself to-day according to its historical development in science and practice. In fact, the United States itself, in all of the trade agreements concluded since June 1934, has not insisted upon an unrestricted application of most favored nation treatment, within this meaning. In her present economic emergency Germany also, notwithstanding her recognition of the principle of a representative period,

could

could not make contractual promises concerning foreign exchange certificates without restricting this principle.

The causes of the present emergency are known to the Government of the United States. They lie, first of all, in the disastrous consequences of the Versailles Treaty forced upon Germany, which deprived Germany of important bases of her raw material supplies and at the same time imposed upon her unbearable financial obligations. To these political payments was added the pressure of those governments of other countries which were willing to open their markets for German goods only under special conditions. This was the case principally with countries with which Germany had a favorable trade balance and which now exercised pressure for the purpose of satisfying their capital

demands

demands out of the German export surplus. It was under this pressure that the clearing agreements originated which resulted in binding those amounts which Germany had formerly been able to use for making purchases in countries with which it had an unfavorable trade balance, as for instance the United States. The systems of quotas, which are to-day universally applied, of clearings, compensation etc. were not invented by Germany but were forced upon her. The German Government is entirely willing to adjust its trade policy to the principle of free exchange of goods as soon as the necessary pre-requisites have been established in the other parts of the world, namely, within the field of general currency stabilization, solution of the debt problem, and equal access to raw materials. The pre-requisites cannot be produced

duced by Germany in her present financial and economic situation. They must be brought about by those States that have disturbed the equilibrium within the other spheres.

II. The German Government regrets that the United States up to now has not seen its way to co-operate in finding an interim solution which would have furnished a practical contribution to the realization of its repeatedly-declared intention of increasing international exchange of goods.

With regard to the statement in the Aide Mémoire that equal opportunity is granted in the United States to the trade of other countries, provided these countries, on their part, do not discriminate against the United States, the German Government calls attention to the fact that Germany does not discriminate against the United States. Germany is ready and willing to accord to

the

the United States the same favorable treatment as it does to any other country. Moreover, with respect to the allotment of free foreign exchange Germany, even now, and almost throughout, accords to the United States more favorable treatment than to other countries.

On the other hand, however, Germany considers itself discriminated against by the United States. The United States grants most favored nation treatment to certain other countries which likewise impose restrictions upon their imports and payments abroad; and these countries, on their part, have not been obliged to bind themselves to an unlimited application of the principle of most favored nation treatment insofar as it refers to the allotment of foreign exchange within a percentage of a representative

period. The German Government cannot comprehend why the United States, only in its relation to Germany, makes the granting of most favored nation treatment dependent upon Germany's putting this principle into effect at once and without restriction.

The German Government which has expressed far-reaching acknowledgement of the principles of American trade policy, has repeatedly endeavored to place the trade relations between Germany and the United States upon a new foundation guaranteeing the extension of their mutual exchange of goods. Following its suggestions of March 1936, and lastly of May 31, 1936, the German Government in its reply to a questionnaire submitted by the American Government made constructive proposals to which it has up to now received no reply. These proposals are still being considered by the German

Government as a basis for negotiations.

III. With regard to the statement in the Aide Mémoire that a system to further exports such as the German one interferes with normal competition it should not be forgotten that international competition primarily was disturbed by the devaluation of currencies undertaken by several governments. If, however, it is said in the Aide Mémoire that the German Government is in a position to place any merchandise on markets of third countries on a competitive basis by discriminate, direct subsidies and thereby to disturb the business of other countries on these markets, attention is again called to the following facts: The means which are raised through the voluntary self-aid action of German industry and commerce serve the purpose of equalizing partially the currency advantage; an advantage which from the very viewpoint of equality

of competitive conditions is unjustified. It was from this point of view that the self-aid action came into existence, and in this sense it is applied in practice. In individual cases the seller of German merchandise may have utilized the self-aid method, and at the same time the buyer of the merchandise may have taken an advantage which, for instance, he obtained by paying with Aski-Marks, upon the quotation of which the German Government unfortunately has no influence. Through the combination of these two factors a reduction of the price of the German merchandise may have been brought about which exceeded the currency advantage of the country of the buyer or that of a third country competing with the German merchandise. The German Government, however, has endeavored to follow these cases - which unquest-

ionably

ionably are difficult to control - and to take appropriate steps for their immediate discontinuance. In any case, it is the German Government's earnest concern that the self-aid action of German commerce and industry retain the character of a contribution to overcome the currency advantages of other countries brought about by devaluation, and that it does not go beyond that scope.

IV. With respect to the statistics concerning the exports of the United States, Germany and other countries to Brazil, the following observations are to be made:

The exports of the United States to Brazil, as a whole, have increased since 1934, even if the percentage share of the United States in the total imports of Brazil has become somewhat smaller. If in the case of individual goods imports from

the

the United States have decreased, this decrease was not caused by an increase of German imports into Brazil but rather by an increased import of these goods on the part of other countries with which, it may be mentioned, the United States has most favored nation agreements. This, for instance, is the case with sewing machines from Canada, railroad equipment, locomotive engines and railroad cars from Great Britain and Belgium. Moreover, more than half of the total imports of Brazil from the United States consists of goods which Germany does not export to South America at all or, at most, only in comparatively limited quantities. While the United States exports to Brazil automobiles, gasoline, petroleum, mineral oils, rubber materials, radio sets, tin plates, fruits, fruit and vegetable juices, tar, wheat etc., German exports to Brazil

comprise

comprise quite different categories of goods, as coal, pharmaceutical preparations, oats, hops, skins, leather, aniline dyes, etc.

The figures quoted in the Aide Mémoire with respect to the percentage share of the German Reich and the United States in Brazilian imports, alone, do not present a correct picture, inasmuch as they start only with the imports since 1934. In order to determine the question whether German competition, in fact, has forced back American imports to Brazil it is important to consider also the import figures of Brazil during the years preceding the World War. They present the following picture:

Share

Share of Germany and the United States in Brazilian imports in percentages of total imports:

	Germany	U.S.A.
1907	15,3	12,8
1908	14,9	12,1
1909	15,6	12,4
1910	15,9	12,8
1911	16,8	13,3
1912	17,2	15,6
1913	17,5	15,7.

Within the seven years before the World War Germany's share in Brazilian imports therefore was always larger than that of the United States. Only as the result of the World War and the conditions existing during the post-War period were German imports forced back, and it was only gradually that they again increased. Contrasting the German-Brazilian exchange of goods during 1913, when they amounted to approximately 447 Million Marks with that of 1936 amounting to approximately 265 Million Reichsmarks, it is readily seen that there can be no mention of an inappropriate increase of German foreign trade with Brazil.

V. The German Government has noted with regret that

that German economic activity in Latin-American countries is constantly subjected to attacks and insinuations both in the American Press and by private economic organizations which attacks have no foundation in fact. The German Government believes to be in accord with the Government of the United States that a just balance of the economic interests of Germany and the United States on the markets of third countries must be counted among those factors which canserve international economic development and the establishment of universal peace, and that this balance will be achieved if the economic competition of the two peoples is guided by fairness and mutual respect.

GOVERNMENT'S STATE EXHIBIT 53

Reproduced on following pages.

Handed to the
German Ambassador
by Mr. Welles. 7-21-37

AIDE MEMOIRE

The German Ambassador on June 30, acting on instructions from his Government and referring to an invitation extended him by the Under Secretary of State to discuss with him the nature of the conversations which officials of the United States Government were carrying on in Washington with the Brazilian Ambassador and the Brazilian Minister of Finance, made oral representations to the Under Secretary raising the question whether these conversations did not involve unwarranted and unfair interference on the part of the United States in trade relations between Germany and Brazil. The Ambassador stated that Germany during recent years had been endeavoring to rebuild its exports to Brazil, which had fallen to low levels after the World War, and that it had only recently succeeded in doing so and in fact in somewhat exceeding its pre-war percentage in Brazilian importations. This he said did

not

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not constitute a threat or jeopardy to American commercial interests in Brazil and the increased trade had not been derived at the expense of the United States. The Ambassador said that his Government was most heartily in accord with the principles maintained by the Government of the United States as to the necessity of unconditional most-favored-nation treatment and as to the need for the elimination of trade barriers, and that the autarchic policies now pursued by Germany were intended only to obtain for German exports the same advantages which had accrued to the exports of the United States and of other great commercial nations through the devaluation of their currencies. He concluded by saying that his Government reserved complete liberty of action to take such measures as it might find necessary in case activities of the Government of the United States should lead Brazil to limit its trade with Germany.

An oral reply was at once made to the Ambassador's representation. It is now desired to confirm and amplify this

this reply.

The Ambassador has said that the German Government is in hearty accord with the principles maintained by the Government of the United States as to the necessity for most-favored-nation treatment and the removal of trade barriers. The Government of the United States does indeed attach great importance to the principle of equality of treatment in international commerce as the most satisfactory basis upon which a healthy international trade can be reconstructed as a permanent foundation for peace.

The Government of the United States has been endeavoring to promote the restoration of international trade through the immediate reduction of excessive trade barriers and has adopted as the most practical means to this end a program of negotiating

tries while extending to all countries which do not discriminate against its trade the benefit of the tariff reductions and other trade advantages it grants any country (Cuba always excepted). The United States has also urged on other countries, and especially on the great commercial countries which exercise a preponderant influence on the commercial policies of the world, the adoption and active execution of similar principles and policies, and the abandonment of policies and practices which conflict with and threaten to thwart the movement for restoration and liberalization of world trade.

Unlike the policy of countries which by clearing and compensation arrangements make access to their markets depend upon the obtaining from other countries of special terms of payment which require purchase of their exports, and do not therefore permit the full and ordinary action of international competition, the commercial policy of the United States imposes no such requirement on the export trade of other countries and involves no economic coercion. The United States seeks equality of commercial opportunity for its trade in other countries, subject to

certain reasonable and recognized exceptions. It gives other countries equality of opportunity to buy and sell in the United States, subject only to the requirement that countries which receive non-discriminatory treatment from the United States shall not discriminate against the United States, and to the historical and recognized exception in favor of Cuba. It is not a narrow policy of seeking advantage for the United States and it will in part have failed if it does not serve to promote a general increase in the volume and value of international trade from which the United States and the world will receive greater benefit than would be possible from any cumulation of special advantages under discriminatory trade régimes.

It must be manifest that such a policy is not motivated by hostility to or jealousy of the commercial expansion of any country nor does it seek unfair advantage over the trade of any country. The United States does not impute such motives to any country. It does believe, however, that certain types of commercial policies of other coun-

tries,

tries, for whatever reasons they may have been adopted, may tend to hamper and thwart its own more liberal policy and its broad objectives, and it feels fully warranted in discussing this problem with any government in whose territories it may arise and in seeking a mutually satisfactory solution.

The Government of the United States welcomes the German Government's repeated expression of approval of the principle of most-favored-nation treatment and of the removal of trade barriers. Certain aspects of current German commercial policy would appear to make more difficult the application of these principles rather than to advance them.

German trade with most of the countries of Europe and with some in other parts of the world is governed by compensation arrangements under which the proceeds of the sale in Germany of the products of the soil or industry of the other party are required to be spent, with limited exceptions, for German goods for export to and use in the territory of the other party. With some other countries the same result is brought about without a compensation

arrangement

arrangement by German regulations limiting the use of the proceeds of their exports - the system of compensation marks. Restrictions on the transfer and on the use in Germany of funds payable to non-residents on indebtedness and other accounts not directly connected with current international trade have been used for the same purpose. It is argued that this is intended to obtain for German exports only the same advantages which other countries have obtained by devaluing their currencies. It is none the less clear that where the sale of the products of a country or the effective possession of property of its nationals can be attained only by the importation of German goods in corresponding value, equality of opportunity for exporters of other countries to compete with German exporters [illegible] ith the refinements of practice devised by the German exchange control authorities for purposes of commercial policy, German compensation mark practices become in fact ~~potent and~~ effective weapons for obtaining advantages ~~over~~

competitors

competitors of non-German residence. The restrictions on the use of the bank deposits in Germany which are designated as compensation marks result in the transfer of such marks among residents of other countries at prices much lower than the official parity of the Reichsmark with gold. The highest legal adviser of the United States Government, after careful consideration of procedures of this kind as used in German trade with the United States in 1936, ruled that they constituted the payment or bestowal of a bounty or grant calling for the imposition of countervailing duties under the laws of the United States.

Germany is not the only country fostering exports by compensation arrangements or by permitting its currency to be sold at depreciated prices to certain non-residents for restricted uses, although it is outstanding among such countries. Its exports, however, receive one distinctive advantage, inconsistent with a régime of equal competition, through provision for massive but selective direct subsidies. In the form of voluntary self-aid, German industries subscribe annually to an export subsidy fund

which

which is reputed to amount during the current year to 1,000,000,000 Reichsmarks. This would permit a uniform subsidy on all German exports of more than 20 percent of their value. Naturally, however, the actual direct subsidization is selective and, while the facts are not officially published, it is understood that subsidies as high as 50 percent and even 60 percent of invoice value have in some instances been paid to enable German exporters to meet competition in foreign markets.

The effect of trade methods such as have been described appears to be manifest in shifts in trade too extensive to be ascribed to any normal change in competitive conditions. Thus Brazilian statistics show the following percentages of participation of Germany in supplying Brazilian imports:

1934	Germany	14.02%	United States	23.67%	Others	62.31%
1935	Germany	20.44%	United States	23.36%	Others	56.20%
1936	Germany	23.50%	United States	22.12%	Others	54.38%
1st Quarter 1937	Germany	26.03%	United States	21.02%	Others	52.95%

The

The problem which such subsidizations presents to the exporters of other countries, including those of the United States, must be appreciated. By the use of subsidy procedure every field of trade, no matter how reasonable the price of the commodity offered, no matter how well-established the business connection, may be disturbed by some administrative decision to subsidize a competing product sufficiently to disturb the business. Competition so directed seems to this Government to be contrary to the principle of equality to which the German Government declares itself to be attached. Furthermore, it takes the determination of trade movement out of the ordinary competitive circumstance and places it into the hands of Government officials whose calculations need not correspond to those of competitive cost. Against the possibility of competition open to such direction it would seem plain that competition of private business, dependent solely on itself, needs safeguarding. Without such safeguard both the principles embodied in

the

the trade agreement between the United States and Brazil and the trade benefits to be expected therefrom are brought into jeopardy. In return for the trade opportunities granted to Brazil under the Agreement, American trade was pledged corresponding opportunity. Trust was placed solely in the operations of those private business calculations which have built up Brazilian-American trade in the past, to extend that trade if tariff barriers were lessened. All these expectations would be invalidated if American trade were dispossessed as a result of the use of a system of compensation procedures and governmental subsidies. The German Government surely realizes the problems created by the use of these procedures; their continued effect would be to weaken any commercial treaty arrangements based on other principles unless safeguards were taken against them; and with the weakening of these commercial treaty arrangements the underlying principles themselves will become inoperative.

There is no basis for statements, or implications that the Government of the United States has been in-

fluencing

fluencing the Brazilian Government in its trade relations with Germany by threats of coercion. A trade agreement based on the principle of most-favored-nation treatment was concluded between the United States and Brazil two and a half years ago and Brazil was the first American power to join the United States in its policy of reconstructing international trade on the basis of equality of treatment. Both Governments are directing their efforts to assure that the principles underlying this Agreement shall be sustained, and that the anticipated benefits be realized in their mutual trade relations.

Department of State,

Washington,

July 21, 1937.

EA:FL:LWW

GOVERNMENT'S STATE EXHIBITS 54 AND 54-A

Reproduced on following pages.

CORRECTED COPY

EG
A portion of this telegram must be closely paraphrased before being communicated to anyone. (A)

Hankow

Dated January 11, 1938

Rec'd 8:20 p.m., 12th

Secretary of State,

Washington.

24, January 11, 3 p.m. (GRAY)

Following for War Department from Colonel Stillwell:

(END GRAY) "Since the capture of Nanking the front has melted away, fighting has practically ceased except on the Tsinpu line, and the military chiefs have been at a loss for a plan of action. The Chinese realize that they cannot compete in a stand up fight. The Japanese realize that they are extended dangerously and they can see an apparent target to strike at that will give them a decision. Both sides are in a quandary, the Japanese hoping the Chinese will ask for peace, the Chinese hoping for intervention by a third power but determined not to quit.

(GRAY) On the Chinese side only the Reds have a definite plan, the essense of which is the adoption of guerilla warfare on a wide scale and the mobilization of the masses. This program has a strong appeal and has gained popular backing. (END GRAY) The Kuomintang leaders have been forced to take notice, since they can

suggest

F.W. 793.94/12068

FILED JAN 20 1938

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suggest nothing better, but they are not pushing the program in a wholehearted way, because its success will mean the passing of power to the Reds. And perfect support by the Government has therefore been extremely meager to date. (GRAY) Present indications are that this policy will be adopted and that there will be little further serious effort to oppose the Japanese with a field army. The question is, can it succeed? Guerilla warfare means to conclude action by small units scattered over wide areas. Control is extremely difficult and without some moral force which urges on the individual concerted action is unlikely. This new force has elsewhere been supplied by religious fervor or patriotic zeal. In China the religious element is lacking and patriotic fervor is as yet largely undeveloped, though growing steadily. It is hard to arouse the spirit of self-sacrifice in people who have been treated as badly by their own troops as they have by the enemy. (END GRAY) However, the Chinese have been swept into mass action by propaganda in the past and the Reds claim that their plan will do it now. (GRAY) To supply this patriotic urge to self-sacrifice which is essential for success they are depending on the student type of agitation to arouse the people. In regions where Chinese troops have committed excesses

results

results will be disappointing. In others where only the heavy hand of the Japanese has been felt, there may be more response. The question of arming the volunteers is however a serious matter; arms by the million are not available. The time factor is also important and it is doubtful whether this can be done short of six months by the Chinese. Based on the facts at present apparent the resort to guerrilla warfare by the Chinese cannot be expected to be adopted with enthusiasm by the Chinese as a whole and cannot have much more effect than to harass an enemy who will still be able to keep a firm hold on the occupied territory.

Twenty-four light Japanese bombers with eight pursuits flew in at 5,000 feet from the east about noon today and bombed Hankow airfield heavily. Little damage. Weather overcast and hazy. Anti-aircraft fire ineffective. No Chinese airplanes in the air. No Japanese losses. Formation: groups of three in wedge with pursuit all on right (north) flank. Airplanes turned and flew off to northeast.

Query. Does War Department desire further report direct movements of personnel to Military Attache's office in China, or will Military Attache be free to make changes that may seem desirable?" (END GRAY)

JOHNSON

HPD:KLP:WC

CORRECTED COPY

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Hankow

Dated January 11, 1938

Rec'd 8:20 p.m., 12th

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Secretary of State,

Washington.

24, January 11, 3 p.m. (GRAY)

Following for War Department from Colonel Stillwell:

(END GRAY) "Since the capture of Nanking the front has melted away, fighting has practically ceased except on the Tsinpu line, and the military chiefs have been at a loss for a plan of action. The Chinese realize that they cannot compete in a stand up fight. The Japanese realize that they are extended dangerously and they can see an apparent target to strike at that will give them a decision. Both sides are in a quandary, the Japanese hoping the Chinese will ask for peace, the Chinese hoping for intervention by a third power but determined not to quit.

(GRAY) On the Chinese side only the Reds have a definite plan, the essence of which is the adoption of guerilla warfare on a wide scale and the mobilization of the masses. This program has a strong appeal and has gained popular backing. (END GRAY) The Kuomintang leaders have been forced to take notice, since they can

suggest

suggest nothing better, but they are not pushing the program in a wholehearted way, because its success will mean the passing of power to the Reds. And perfect support by the Government [illegible] extremely meager to date. (GRAY) Present indications are that this policy will be adopted and that there will be little further serious effort to oppose the Japanese with a field army. The question is, can it succeed? Guerilla warfare means to conclude action by small units scattered over wide areas. Control is extremely difficult and without some moral force which urges on the individual concerted action is unlikely. This new force has elsewhere been supplied by religious fervor or patriotic zeal. In China the religious element is lacking and patriotic fervor is as yet largely undeveloped, though growing steadily. It is hard to arouse the spirit of self-sacrifice in people who have been treated as badly by their own troops as they have by the enemy. ([illegible] AY) However, the Chinese have been swept into mass action by propaganda in the past and the Reds claim that their plan will do it now. (GRAY) To supply this patriotic urge to self-sacrifice which is essential for success they are depending on the student type of agitation to arouse the people. In regions where Chinese troops have committed excesses

results

results will be disappointing. In others where only the heavy hand of the Japanese has been felt, there may be more response. The question of arming the volunteers is however a serious matter; arms by the million are not available. The time factor is also important and it is doubtful whether this can be done short of six months by the Chinese. Based on the facts at present apparent the resort to guerrilla warfare by the Chinese cannot be expected to be adopted with enthusiasm by the Chinese as a whole and cannot have much more effect than to harass an enemy who will still be able to keep a firm hold on the occupied territory.

Twenty-four light Japanese bombers with eight pursuits flew in at 5,000 feet from the east about noon today and bombed Hankow airfield heavily. Little damage. Weather overcast and hazy. Anti-aircraft fire ineffective. No Chinese airplanes in the air. No Japanese losses. Formation: groups of three in wedge with pursuit all on right (north) flank. Airplanes turned and flew off to northeast.

Query. Does War Department desire further report direct movements of personnel to Military Attache's office in China, or will Military Attache be free to make changes that may seem desirable?" (END GRAY)

JOHNSON

HPD:KLP:mf C

GOVERNMENT'S STATE EXHIBITS 55 AND 55-A

Reproduced on following pages.

TELEGRAM RECEIVED

EG GPO

GRAY
FROM

Tsingtao via N. R.

Dated January 13, 1938

Rec'd 10:30 a.m. Jan. 14th

AMEMBASSY PEIPING
AMEMBASSY HANKOW

COPIES SENT TO
[illegible] AND M.I.D.

Secretary of State,

Washington.

793.94/1

FOR WAR DEPARTMENT FROM DORN

Peiping and Hankow please transmit to Military Attache. No. 17. January 13, 3 p.m.

Japanese army troops beginning to move west on railway. Tsingtao airfield being cleared of debris and rocks. Boom across the entrance to inner harbor partially cleared and two freighters and one man of war tied up at docks this morning. Only artillery seen was old 77 millimeter Krupp type. Great amount of supplies being landed. Japanese Consul General expects Japanese community to return within a month.

SOKOBIN

RR: WC

793.94/12088

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JAN 17 1938

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RR: C

EDA

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PARIS

Dated January 13, 1938

FROM

Received 3:15 p.m.

DIVISION OF EUROPEAN AFFAIRS
JAN 17 1938
DEPARTMENT OF STATE

Secretary of State

Washington

SECRETARY OF STATE
JAN 1 - 1938
NOTED

ADVISER ON POLITICAL RELATIONS
MR. DUNN
JAN 14 1938
DEPARTMENT OF STATE

ADVISER ON POLITICAL RELATIONS
MR. HORNBECK
JAN 13 1938
DEPARTMENT OF STATE

63, January 13, 6 p.m. (SECTION ONE).

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

Dr. Tingfu Tsiang recently resigned as Chinese Ambassador in Moscow and will return to China next week via Singapore to become Secretary to the Cabinet called on me this morning and made a number of statements which seemed to me important.

He said that he was convinced that the Soviet Union would refuse to enter the Sino-Japanese conflict under any and all conditions. He believed that internal difficulties in the Soviet Union were such at the present time that the Russians would be afraid to attack the Japanese even if the Japanese army should be greatly weakened by a prolonged Chinese resistance.

He said that Litvinov had stated to him repeatedly that the Soviet Union would declare war at once on Japan if England, France and the United States should declare war on Japan. He said that he did not believe that this was true and that in his final conversation with Litvinov he had pinned down Litvinov and compelled a reply

793.94/12082 FILED
JAN 27 1938

CONFIDENTIAL FILE

a reply. He stated that he had asked Litvinov if he meant the Soviet Union would enter war against Japan if any one of the three nations named above should go to war with Japan or only if all three together should go to war with Japan. Litvinov had become completely evasive and finally had made it clear that the Soviet Union had no intention whatsoever of going to war with Japan under any circumstances. (END SECTION ONE)

BULLITT

HPD

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PARIS

FROM Dated January 13, 1938

Received 3:35 p.m.

Secretary of State

Washington

63, January 13, 6 p.m. (SECTION TWO.

Dr. Tsiang stated that on the other hand the Soviet Union was being much more generous in its support of China by munitions and supplies than he had expected. Russia had at first demanded gold from China in payment for supplies, but when the Chinese had insisted that they were unable to pay gold the Russians had agreed to supply them with everything possible on credit. The only payments that the Russians were receiving from China were in the form of antimony and other minerals which the trucks carrying war supplies to China brought back with them on their return journey.

Dr. Tsiang stated to me that most of the Russian supplies to China were not going overland but by sea, especially by way of Hong Kong and Canton, although the French railroad from Indo-China was carrying to full capacity.

The overland route from Alma Ata in Russian Turkestan

to

to Urumchi in Sinkiang and thence to Lanchow, Sian and Chungking was now a thoroughly passable motor road but it took the best trucks under the best conditions, with no delays or accidents, at least 18 days from the Russian border to Chungking. This made the problem of supplying gasoline almost insuperable and the Chinese had now organized camel caravans to carry supplies of gasoline for the trucks.

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Dr. Tsiang stated that the whole problem of Chinese resistance was one of obtaining military supplies. He believed that the Soviet Union would continue to furnish all the supplies possible on credit. It was, however, clear that the Japanese might soon blockade the main route of supply by way of Hong Kong, Canton, and Hankow. They might also be able to frighten the French into closing the route of supply by way of French Indo-China. This would leave open only the extremely difficult overland route from Alma Ata to Chungking. It would be impossible to install even a field railway on this route and as a result it might become a matter of life and death for the Chinese to find some other route to supply Chiang Kai Shek's armies if he should be compelled to repeat (retreat?) to Szechuan.

Dr. Tsiang stated that there was another excellent route which it might be possible to use: The route by way of Burma. The British railroad from Rangoon to Mandalay and thence to the border of Yunnan had been completed to within two miles of the Chinese frontier.

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SMS:CSB

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FROM PARIS

Dated January 13, 1938

Received 3:50 p.m.

Secretary of State

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63, January 13, 6 p.m. (SECTION FOUR).

The road from that point to Yunnanfu was an old one but could be put in order comparatively easy for the transit of modern trucks. Dr. Tsiang stated that he was on his way to London this evening to attempt to make arrangements for the supplying of Chiang Kai Shek's armies by this route. He stated that the roads from Yunnanfu to Chungking were thoroughly passable. He considered that this route by way of Burma might become China's life line and hoped that the British Government would do everything possible to assist in the supplying of China through Burma.

In the course of our conversation Dr. Tsiang said that China was still receiving large quantities of military supplies from Germany and Italy and added that the German military mission in China so far as the Chinese could discover was still working loyally and efficiently in assisting Chiang Kai Shek to direct the Chinese armies.

(END OF MESSAGE).

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